2016

INTEGRATED ANNUAL REPORT

Capricorn Group

CONNECTOR OF POSITIVE CHANGE

Our vision is to be the most trusted and inspiring connector of positive change through a highly relevant, convenient and responsive network of people and channels that enables opportunities to be created, financed, transacted and secured, wherever we operate.

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BANK WINDHOEK HOLDINGS BECOMING CAPRICORN INVESTMENT GROUP LIMITED

BANK WINDHOEK HOLDINGS BECOMING THE CAPRICORN INVESTMENT GROUP

"Capricorn Group is a remarkable Namibian story about a successful business built on integrity, the spirit of entrepreneurship, relationships, and, above all, the commitment and hard work of our people. Our organisational culture is one that encourages exceptional performance, supported by a strong sense of responsible behaviour. As a group, we remain committed to the responsible economic growth of Namibia." – Thinus Prinsloo, managing director of Capricorn Group

This integrated report introduces the new Capricorn Investment Group Limited (Capricorn Group) previously known as Bank Windhoek Holdings Limited (BWH). In 2014, BWH started a process to explore a monolithic brand architecture to align the entities in the group with a common brand vision, proposition, purpose and values. The objective was to organise and position the group competitively by building a single powerful brand with a unique identity.

The new visual identity and name options for the group were tested through targeted brand and market research. The process considered input from a range of stakeholders and assessed the risks and opportunities from a regional and market segmentation perspective. It had to be applicable over an expanded geographic region and relevant to diverse stakeholder segments while embracing an African heritage of community and unity.

In June 2016 the board approved the new name Capricorn Investment Group Limited and logo supported by a purpose statement and values that will set the direction for the group's future strategy. The new logo is featured on the front cover of this report.

The brand promise aims to deliver on the new brand purpose: to be a connector of positive change. The new brand values: being open, inspiring and dedicated have been aligned with a new citizenship code, to ensure the right behaviours, norms and truths combine into a culture that will support the brand promise that is made to stakeholders.

Capricorn Group exists to create opportunities for stakeholders and will continue doing this by recognising their life journey and appropriately responding to their needs.

The Capricorn Group name and branding was approved by the shareholders on 29 August 2016, as well as the Bank of Namibia and the name change on the Namibian Stock Exchange (NSX) is effective from 19 September 2016.

WHY YOU SHOULD READ THIS INTEGRATED ANNUAL REPORT 01

INVESTMENT CASE

The Capricorn Group (the group) is a uniquely Namibian investment holding company. This integrated annual report (report) sets out how the group creates value for stakeholders and is illustrated by the following:

- The Capricorn Group is a 97% Namibian-owned group providing attractive, sustainable returns for its shareholders.
- Through its listing in 2013, the Capricorn Group provided an investment opportunity to the Namibian public in the national pursuit of financial inclusion and localisation of ownership of financial institutions.
- The Capricorn Group owns assets to the value of N$32.3 billion.
- Bank Windhoek, the flagship brand, is the largest locally owned bank and the second largest commercial bank in Namibia. Bank Windhoek's scale is evident from its network of 55 branches and agencies, 108 automated teller machines (ATMs) and 260 Cash Express ATMs nationally.
- The Capricorn Group has a credit rating of AA(NA) in the long and A1+(NA) in the short term with a stable outlook.
- The Capricorn Group was awarded an overall second place in the 2015 PSG Banking Review for Namibia, with the highest ranking in non-interest income growth, and in loans and advances market share.
- The Capricorn Group delivered a solid performance during the 2016 financial year with profit after tax increasing by 20.2% year on year and realising a return on average equity of 22.9%. This was the fifth consecutive year of profit growth in excess of 20%, emphasising the consistent performance of the group.
- The Capricorn Group share price has almost doubled from its public offer price of N$8.75 at listing in June 2013, to N$17.24 on 30 June 2016. The directors have resolved to declare a dividend of 66 cents per share (2015: 53 cents per share) for the year ended 30 June 2016.
- The group remains well capitalised with a significant buffer above the minimum capital requirements.
- The Capricorn Group is also diversified into asset management and insurance interests through Capricorn Asset Management, Sanlam Namibia and Santam Namibia.

2016 FINANCIAL HIGHLIGHTS

19.6%
N$1,171m
Operating profit
(2015: N$979m)

17.3%
N$4.3bn
Net asset value
(2015: N$3.6bn)

20.2%
N$905m
Profit after tax
(2015: N$753m)

+20.5%
Earnings per share

22.9%
Return on average equity
(2015: 22.4%)

15.8%
Capital adequacy
(2015: 15.8%)

Navigational icons

The following icons are applied throughout the report to improve usability and show the integration between the relevant elements of the report.

This icon is used to refer to Capricorn Group's website: www.capricorn.com.na

This icon is used for cross-referencing in the report.

Assurance

The consolidated annual financial statements from pages 90 to 220 were audited by Pricewater-houseCoopers. Non-financial information has been assured through an internal process that involves management review. A formal combined assurance approach will be developed for future reports.

Board approval

The board, assisted by the board audit, risk and compliance committee (BARC), is ultimately responsible for the integrity and completeness of this report. The newly established board sustainability and ethics committee was involved in considering the approach and content of the report. The board has applied its collective mind to the preparation and presentation of the report and, accordingly, approved it on 7 September 2016.

Koos Brandt
Chairman

Thinus Prinsloo
Managing director

Forward-looking statements

This report contains certain forward-looking statements regarding the results and operations of Capricorn Group, which by their nature involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future.

These forward-looking statements have not been reviewed or reported on by the group's external auditors.

SCOPE AND BOUNDARY OF THIS REPORT 02

ABOUT THIS REPORT

This is Capricorn Group's first integrated annual report. It combines economic, social and environmental aspects of Capricorn Group's business activities and outcomes and is based on the principle of materiality. The report is aimed at Capricorn Group's providers of financial capital but, in developing the content, the interests of all stakeholders were considered.

The purpose of this report is to explain how Capricorn Group creates value over the short, medium and long term. This is achieved by setting out Capricorn Group's performance for 2016, articulating its response to the external environment through strategy, governance and risk management, and measuring its social and environmental impact.

The report forms part of a suite of financial reporting elements available in different channels to shareholders, analysts, investors and the media:

Element	Availability	Target audience	Reporting dates
Investor presentation	www.capricorn.com.na/ investor relations	Shareholders, analysts, investors and media	12 August 2016
Integrated annual report	Printed report and online at www.capricorn.com.na/ investor relations	Shareholders, analysts, investors and media	22 September 2016
Interim results	www.capricorn.com.na/ investor relations	Shareholders, analysts, investors and media	February annually
Trading updates and NSX NENS announcements	www.capricorn.com.na/ investor relations	Shareholders, analysts, investors and media	Continuously as required

For more information or feedback on this report or any of the other reports listed in this section, please contact Marc Backhaus on investorrelations@capricorn.com.na or +264 61 299 1281.

Capricorn Group applied the principle of materiality (see detail in next section) in developing the content for this report. As such, the board believes that it is not necessary to publish a summary of the report as proposed by the NamCode.

The report relates to the financial year from 1 July 2015 to 30 June 2016 and covers the entities as set out on page 17, which constitute the group. All business activities are located in Namibia, with priority reporting given to Bank Windhoek as the most significant contributor to the group.

Read more about the contributions of the different subsidiaries on pages 18 – 20.

Reporting frameworks

Capricorn Group's financial reporting adheres to the following requirements:

- NamCode
- Namibian Companies Act, 28 of 2004
  NSX Listing Requirements
- International Financial Reporting Standards (IFRS)
- Banking Institutions Act, 2 of 1998

Capricorn Group has also chosen to adhere to best practice based on the following:

- International Integrated Reporting Council (IIRC) <IR> framework
- Global Reporting Initiative (GRI) G4 sustainability guidelines

FOCUSING ON WHAT IS MATERIAL

In preparation for the report, Capricorn Group launched a materiality determination process to identify those risks, opportunities or issues that could substantively affect the group's ability to create value in the short, medium or long term. These matters determine the content of this report.

The process started with an externally facilitated workshop, which included representation from a range of internal specialist disciplines, management, executives and the board. Internal perspectives on what is material were supplemented by input from an extensive stakeholder engagement audit done by the Capricorn Investment Holdings (CIH) group in 2015. The significant stakeholder groups that provided input are:

As Capricorn Group based materiality on its ability to create value, the group identified the following ways in which sustainable value is created for its stakeholders:

As a financial services provider, Capricorn Group partners with **customers** in growing their wealth, funding their business ventures and providing insurance to mitigate their unique risks. Customers trust Capricorn Group to safeguard their assets, provide them with advice, products and experiences that meet their needs and expectations. Capricorn Group's decentralised decision-making structure means that customers can connect with the group where it is convenient for them and can depend on a quick response, based on an understanding of local challenges and opportunities.

As a creator of skills, Capricorn Group provides stable employment and development opportunities for Namibian people. As **employees**, they are able to advance their careers nurtured by a culture that is focused on building relationships and unlocking potential to drive positive change internally and externally with stakeholders – with rewards and recognition supporting high performance.

Capricorn Group delivers stable, sustainable and attractive returns for **shareholders** seeking exposure to the financial sector of the NSX. The group's growth prospects, portfolio spread and solid governance gives its providers of capital confidence in its ability to drive positive change, manage risks, meet competitive challenges and maximise new opportunities.

By adhering to high ethical standards, including all relevant legislation, guidelines and standards, Capricorn Group is a committed economic partner to **government** in its efforts to create a stable and accessible financial services industry. As the largest Namibian-owned finance group, Capricorn Group maintains a close relationship with its **regulators**. The group aligns its initiatives with governmental and regulatory imperatives and actively promotes initiatives that drive positive change such as the Harambee Prosperity Plan, to ensure a flourishing social and economic environment for all its stakeholders.

Through its social investments and sponsorship activities, and its ability to leverage interpersonal connections in an effective way, Capricorn Group has been creating value for communities through partnerships for more than 20 years. Beneficiaries and members of **communities** typically gain access to educational, entrepreneurial and health improvement opportunities that allow them to be more economically active. Capricorn Group ensures impact through collaboration and ensuring that these initiatives are aligned to government's social development agenda.

Overview of material matters

- ✓ Ability to meet individual customer needs and expectations
- ✓ A combination of national challenges
- ✓ An interdependent relationship with the South African economy
- ✓ Constrained market liquidity
- ✓ Current profile of the national skills pool driving focused development, training and diversity initiatives
- ✓ Enhancing and optimising management and operational systems
- ✓ Increased competition from non-traditional competitors
- ✓ Managing trade-offs responsibly to ensure value creation
- ✓ Navigating complex regulatory changes
- ✓ Rising incidence of crime, corruption and fraud
- ✓ Scarcity of natural resources indirectly impacts Capricorn Group's ability to do business

Ability to meet individual customer needs and expectations

Customers' financial requirements are changing as a result of, inter alia, rapidly developing digital technology that brings efficient delivery of products and services through multiple channels and across growing economic and geographic segments. These needs range from seeking advice on personal financial options to addressing financial illiteracy, limited access to infrastructure and a range of convenience priorities. Understanding these needs provides Capricorn Group with an opportunity to increase product flexibility, attract new market segments and expand in current markets. The unpredictable, rapid and disruptive change driven by new technology creates attractive opportunities for non-traditional competitors, thereby challenging Capricorn Group's conventional market position. However, this provides new prospects for Capricorn Group as a platform partner.

Read more about Capricorn Group's response in the strategy section on page 28 and in the managing director's report from page 43.

A combination of national challenges

The Capricorn Group's revenue is derived exclusively from its Namibian operations, which are exposed to national challenges that include poverty, water scarcity, skills shortages and social inequality. Namibia also has a unique and interdependent relationship with the South African economy and people. Despite some of these challenges, Namibia poses an attractive investment opportunity characterised by a robust governance and macroeconomic architecture, peace and social stability. The Capricorn Group has a responsibility to contribute to local development. Failure to do so could undermine the group's ability to create value and grow. Therefore, the group supports empowerment initiatives and projects aimed at facilitating access to financial products and services in economically disadvantaged communities. The group's contribution will continue to be shaped by Vision 2030 which sets out the country's development programmes and strategies to achieve its national objectives.

Read more about social priorities on page 31 and Namibian challenges in the operating environment on page 38.

An interdependent relationship with the South African economy

Constrained growth of the South African economy and a volatile currency challenge the strength of the Namibian dollar, which is pegged to the South African rand. The threat of a downgrade of South Africa's sovereign rating poses a further risk to Capricorn Group's business, as it could limit access to foreign capital. Initiatives to partner and engage with government to create resilience and robustness in the Namibian economy assist in mitigating these dynamics over the medium to long term.

Read more about the operating environment on page 38.

Constrained market liquidity

Tightening of liquidity in the Namibian market could hinder the ability of all participants in the financial services industry in meeting financial obligations as they fall due, or to liquidate assets without incurring excessive costs. Constrained and unpredictable market liquidity could also impact Capricorn Group's ability to fund the needs of the economy, thereby constricting growth. Guided by a liquidity risk management process and framework, the group strives to hold an adequate liquid asset surplus that can cater for unexpected outflows.

Read more about liquidity controls in the risk and compliance report on page 83.

Current profile of the national skills pool driving focused development, training and diversity initiatives

The Capricorn Group's growth ambitions require the availability of specialist skills, including technical and specialised competencies, qualifications and experience related to financial services, information technology and digital development. These skills are often limited or unavailable in Namibia, and can, for example, delay the development and implementation of new products and services. The attraction and retention of engaged, high-performance and highly skilled employees are therefore critical. The Capricorn Group supports this through its investment in human capital and remuneration approach. The group also recognises that diversity and transformation are critical for growth.

Read more about social priorities on page 31 and remuneration from page 72.

Enhancing and optimising management and operational systems

Continuous change and innovation in systems, and the increasingly novel solutions offered by information technology, bring opportunities for enhanced internal effectiveness and the optimisation of processes. As a fairly young entity in global banking terms, Capricorn Group has a modern, flexible and efficient core system which facilitates data management and mining in support of the group's strategic objectives. Risks related to systems are managed through a well-developed IT governance structure.

Read more in the governance report from page 55.

Increased competition from non-traditional competitors

Capricorn Group's competitive position is challenged by new market entrants. The inflow of competitors in a relatively small market could lead to saturation and a slowdown in growth, while changing dynamics and customer expectations. The rapid pace of changing technology, especially in the payment solutions environment, has led to non-traditional competitors including retailers, mobile operators and data rich business, offering new competing products and services. Capricorn Group builds customer loyalty, resilience and competitiveness by aiming to be more responsive and agile with the launch and rollout of new offerings. It has the benefit of a historic understanding of the market to provide relevant insights and decisions, supported by strong customer relationships.

Read more in the managing director's report from page 43.

Managing trade-offs responsibly to ensure value creation

Strategic growth ambitions, social priorities and shareholder requirements often result in conflicting demands for capital allocation. Capricorn Group has the benefit of stable, supportive providers of financial capital, who hold a long-term view of value creation. Stakeholder expectations have to be monitored continuously and managed against an appropriate governance framework and risk appetite to ensure the group fulfils its role as a partner in the development, economic growth and prosperity of Namibia. Capricorn Group furthermore has to consider the future requirements of Basel III which demand higher capital reserves and might impact on returns going forward.

Read more in the managing director's report from page 43.

Navigating complex regulatory changes

The local financial services industry is aligning itself with a global legislative regime that aims to build trust and confidence in the sector and its participants. The Capricorn Group continues to engage with government and regulators to support the development of suitable, value-adding legislation. The group's solution-based approach addresses challenges where underlying legislative drivers are aimed at first-world events and risks, and can be less relevant to local dynamics, resulting in increasing cost and complexity. This highlights trade-offs in capacity allocation, where the emphasis should be on improving risk management and controls suited to Namibia's financial and regulatory landscape.

The group complies fully with legislation and remains cognisant of its responsibilities in maintaining a licence to operate, and protecting its reputation and shareholder value.

Read more about legislation and compliance in the governance report from page 55.

Rising incidence of financial crime, corruption and fraud

Individuals and businesses are threatened by the rising incidence and impact of financial crime, corruption and fraud. Failure to identify and manage these risks could result in reputational risk and a loss of income, jeopardising the group's contribution to a stable and trustworthy financial services industry.

Read more about risk management in the chairman's statement on page 40 and the risk and compliance report from page 78.

Scarcity of natural resources indirectly impacts Capricorn Group's ability to do business

Water shortages and potential tightening of electricity supply threaten economic activity. Further changes in climate conditions can result in expanding drought and constrained industrial, property development and agricultural activity. There is a risk that this could impact Capricorn Group's ability to create value via its lending and investing practices, for example, increasing the risk of defaults on loans and exposing the group to higher credit risk. Fostering an understanding of and managing Capricorn Group's environmental impact will assist the group in managing its impact and encouraging wider stakeholder responses to environmental risk.

Read more about our environmental priorities on page 34.

Capricorn Group and the Harambee National Prosperity Plan

The Namibian government released a targeted action plan in 2016 to accelerate development in clearly defined priority areas, which lays the basis for attaining prosperity in Namibia. The Harambee National Prosperity Plan complements the long-term goal of the National Development Plans (NDPs) and Vision 2030. It fast-tracks development in areas where progress is insufficient and declares war against poverty and corruption. It also incorporates new development opportunities and aims to address challenges that have emerged since the formulation of NDPs.

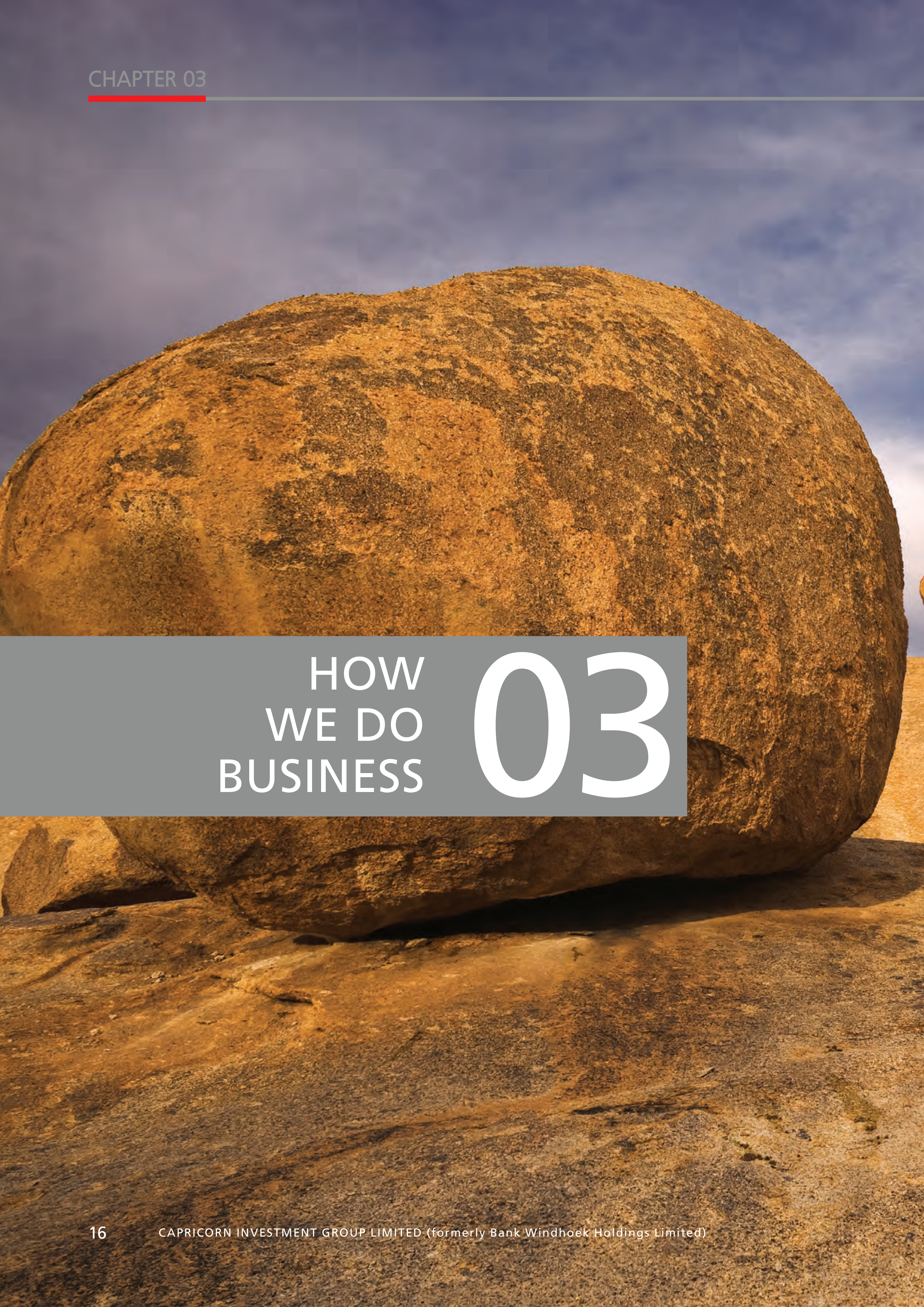
The Capricorn Group supports the Harambee National Prosperity Plan and has actively started to assess the plan in detail to identify opportunities through which the group can contribute. Through specific initiatives, Capricorn Group will demonstrate that it supports the vision of government and is aligning its own plans to the objectives of the Harambee Plan.

The plan is structured according to five pillars:

EFFECTIVE GOVERNANCE	ECONOMIC ADVANCEMENT	SOCIAL PROGRESSION	INFRASTRUCTURE DEVELOPMENT	INTERNATIONAL RELATIONS AND COOPERATION
Accountability and transparency	Macroeconomic stability	Hunger and poverty	Energy infrastructure	Respected and trusted international community member
	Economic transformation	Residential land servicing, housing and sanitation	Water infrastructure	
Improve performance and Service delivery	Youth enterprise development	Infant and maternal mortality	Transport infrastructure	International support for economic independence
	Economic competitiveness	Vocational education and training	ICT infrastructure	

In support of the plan, which is aligned to several of the material matters listed previously, Capricorn Group has identified the pillars and objectives where the group could potentially have the most significant impact, as set out in the table below:

Relevant pillar	Opportunities for Capricorn Group to provide support
ECONOMIC ADVANCEMENT	**Economic transformation** – local value creation through government's "Growth at Home" strategy to create new jobs, improving economic empowerment and investment promotion activities **Youth enterprise development** – stimulating an entrepreneurial spirit among the Namibian youth and entrepreneurs by addressing constraints, such as access to finance and information and the provision of mentorship to SME's
SOCIAL PROGRESSION	**Hunger and poverty** – providing emergency relief when required, improving agricultural productivity and supporting food banks among the urban poor **Residential land servicing, housing and sanitation** – participating in facilitating the construction and development of houses **Vocational education and training (VET)** – a strong emphasis on VET training, apprenticeship, mentoring, coaching and equipment aid, including financial assistance to enable graduates and entrepreneurs to start their own businesses
INFRASTRUCTURE DEVELOPMENT	Addressing infrastructure weaknesses that, if not addressed urgently, could become bottlenecks to continued growth and development, including: • Shortage of locally generated electricity. • An ageing rail network, especially between Walvis Bay and Tsumeb. • Underdeveloped water infrastructure in the north and central regions.



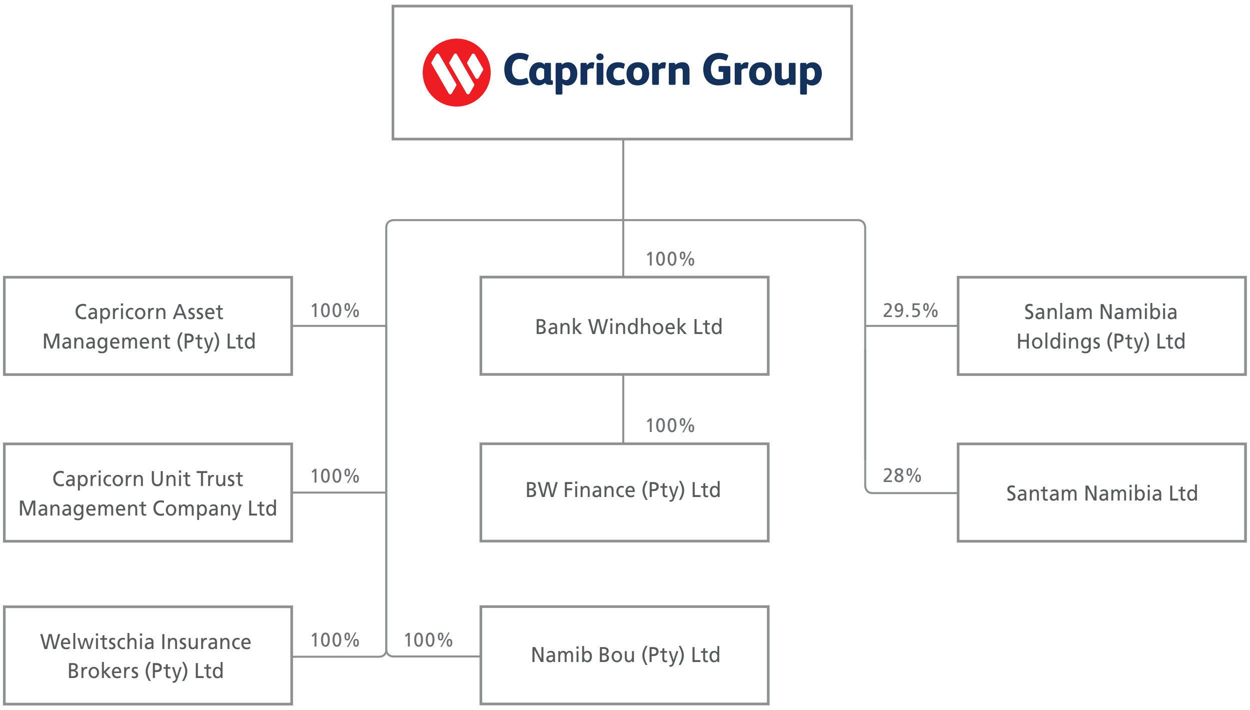
HOW WE DO BUSINESS 03

CAPRICORN GROUP PROFILE

Capricorn Group is a Namibian financial services group. It primarily operates as an investment holding company with interests in banking, insurance, asset management, and microfinance. It was incorporated on 5 September 1996. The Capricorn Group has been listed on the NSX since June 2013. It is a 55% subsidiary of Capricorn Investment Holdings (CIH), a regional financial services group.

CIH has interests in related companies in Namibia, Botswana and Zambia. Capricorn Group is the holding company for CIH's business interests in Namibia.

As at 30 June 2016



Group entity profiles

Subsidiaries

Bank Windhoek is the flagship brand of Capricorn Group and was established in 1982. It is a full-scope commercial bank offering a wide range of banking products and services through a network of 55 retail and specialist finance branches and agencies nationwide. The bank also has a corporate and executive banking division with offices in Windhoek, Oshakati and Walvis Bay.

It offers foreign exchange services at all its branches and through a joint venture with American Express, which has various outlets in Namibia.

Bank Windhoek has a network of 108 ATMs and 260 Bank Windhoek Cash Express ATMs across Namibia.

Bank Windhoek's wholly owned subsidiary, BW Finance, is the entity through which Capricorn Group operates its microlending business, in partnership with Nam-mic Financial Services Holdings, the group's strategic BBBEE partner.

Managing director
Christo de Vries
(outgoing 30/06/2016)
Baronice Hans
(incoming 01/07/2016)

Global credit rating of AA(NA) (long term) and
A1+(NA)
(short term)
at November 2015

1,424
Number of employees

Products and services

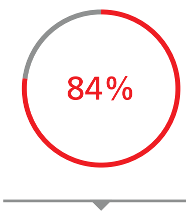
Bank Windhoek offers personal, corporate, electronic and international banking products and services. These include personal savings for different customer segments and needs, for example the EasySave account for low-income earners, student accounts or the AgriSave account for farmers. Further solutions for farmers include AgriCheque and AgriSelekt products.

Bank Windhoek has a wide range of loan products to cater for the needs of customers, from unsecured to secured loan options, including for example home and building loans, vehicle and asset finance and micro-loans through BW Finance.

International banking services include payment products, trade services, trade risk and foreign currency accounts. Financial solutions for businesses include overdraft, business financing and startup alternatives.

Bancassurance includes short-term, long-term and travel insurance and guarantees.

A range of funds, such as investment, Selekt, Corporate and Commercial funds, are available as investment options.



Contribution to group profit after tax

The group's asset management activities are conducted under two separate legal entities: Capricorn Asset Management (CAM) and Capricorn Unit Trust Management Company (CUTM).

CAM was established in 2006 and offers a convenient one-stop investment solution to retail and private customers, corporate and institutional investors. CAM's wealth management services include investment advisory and portfolio management services. Through the Caliber Capital Trust, an approved unlisted special purpose vehicle in terms of Regulation 29 of the Pension Fund Act, CAM offers investment opportunities in unlisted businesses.

CUTM was established in early 2000 and soon became the market leader in the unit trust industry. It still has the largest market share overall with its Bank Windhoek Selekt Fund, Bank Windhoek Investment Fund, and Bank Windhoek Corporate Fund maintaining its dominant position in the money market asset class.

Bank Windhoek Unit Trusts (BWUT) are registered under CUTM with all administration and asset management activities of the funds performed by CAM.

Products and services

CAM and CUTM provide customers with access to investments in all major asset classes, government securities trading, trust services, equity dealing, international investment and investment consulting for the retail, high-net-worth corporate and institutional customer.

Managing director
Tertius Liebenberg

35
Number of employees

4%
Contribution to group profit after tax

N$16.5bn
Assets under management

27%
Namibian unit trust market share

15
Number of unit trust funds managed

Welwitschia INSURANCE BROKERS

Welwitschia Insurance Brokers (WIB) was established in 1984 and acquired by Capricorn Group on 31 March 1998.

WIB is a short-term insurance broker with a national footprint.

Products and services

WIB offers short-term insurance broking services for all types of corporate, commercial, SME, marine, aviation and personal lines insurance.

Managing director
Riaan Louw (acting)

13 Branches

82 Number of employees

1% Contribution to group profit after tax

N$420m Gross written premium administered

Namib Bou (Pty) Limited

Namib Bou was established on 21 November 1990 and became part of the CIH group in 1996.

Namib Bou is a property development company focusing on affordable housing development and property valuation services. Namib Bou acts as the social responsibility arm of Capricorn Group and the facilitator between local authorities and financial institutions (banks) to support the creation of housing stock over the long term.

Products and services

Namib Bou offers property development services that range from planning and design to feasibility studies and construction management.

Executive director
Johan Nienaber

128 houses completed by 2014

145 houses completed in 2015

Low-cost housing development

Associates

Santam Namibia was established in Windhoek in 1956, and is a 60% owned subsidiary of Santam Limited, the leading general insurer in South Africa. The remainder is held by Capricorn Group (28.0%) and Nam-mic (12.0%).

Santam Namibia is the largest short-term insurer in Namibia with a countrywide contact centre and offices infrastructure, a strong intermediary network and a market share exceeding 30%. Santam Namibia focuses on corporate, commercial and personal markets, underwriting a wide range of insurance classes.

Sanlam Namibia's key strategic shareholders are Sanlam Limited (54.1%), a South African financial services group as technical partner, Capricorn Group (29.5%) as banking partner and Nam-mic (16.4%) as empowerment partner.

Sanlam Namibia Holdings is a well-diversified financial services group with key operations in life assurance in the affluent and entry-level market, group life assurance, credit life assurance, unit trust management and unit-linked platform business.

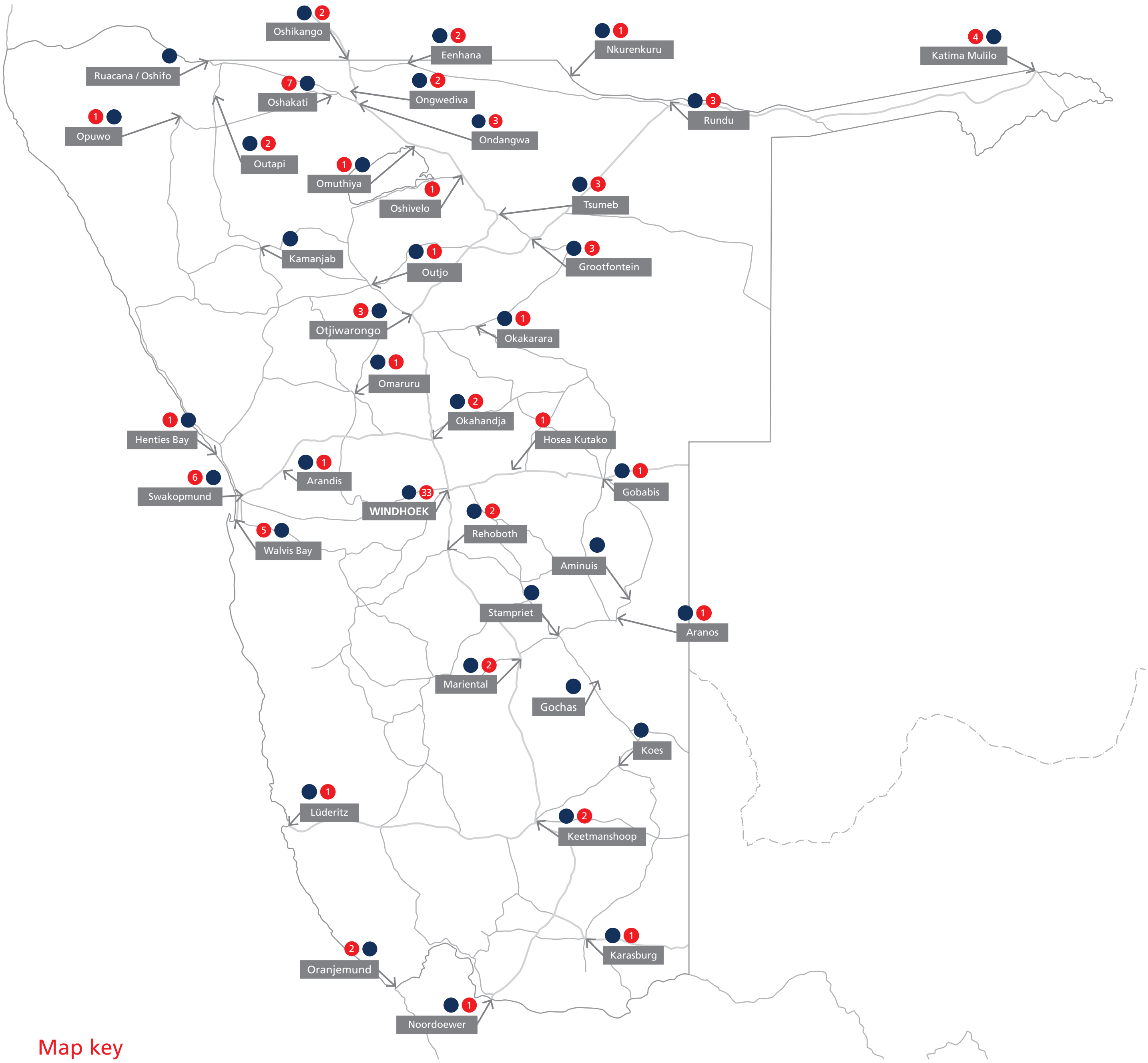
Partnerships

Nam-mic Financial Services Holdings Group (Pty) Ltd (NFSH) is the largest single investment house owned by Namibian trade unions. Its ultimate beneficiaries are the union members and their dependants. It offers microfinance to union members in partnership with BW Finance. NFSH is the Capricorn Group's BBBEE partner with a 9.4% shareholding.

Namclear

The Capricorn Group is a member of Namclear, a cooperative venture between the four commercial Namibian-based banks. Namclear is a service provider to the banking industry with local clearing of interbank transactions as its core service.

Geographic footprint of Bank Windhoek



Map key

- Bank Windhoek ATM's currently
- Bank Windhoek Branches/Agencies

Broad-based black economic empowerment (BBBEE) structure

Capricorn Group is committed to BBBEE and facilitated transactions that enabled Nam-mic Financial Services Holdings (Pty) Ltd (NFSH) to acquire shares in various companies associated with Capricorn Group in 2002. NFSH is the single largest BBBEE investment company and is owned by Namibian trade unions. Its ultimate beneficiaries are the union members and their dependants. It offers, inter alia, microfinance and insurance products to union members in partnership with BW Finance, Sanlam and Santam.

NFSH holds shares in the following companies:
- Capricorn Investment Group (9.4%)
- Sanlam Namibia (16.4%)
- Santam Namibia (12.0%)

In addition to NFSH, Capricorn Group also has other historically disadvantaged shareholders. The total BBBEE shareholding in Capricorn Group equates to 16.2%.

Shareholding analysis

	2016	2015
Number of shares in issue	505,280,000	505,280,000
Number of shares traded	11,028,526	4,942,677
Value of shares traded	181,594,642	68,147,619
Closing price (N$ per share)	17.24	15.56
High (N$ per share)	17.25	15.56
Low (N$ per share)	15.55	11.16
Price: earnings ratio (HEPS)	9.5	10.3
Price to book ratio	2.0	2.1

Public and non-public shareholdings

	Number of shareholders	Percentage of total shareholders	Number of shares in issue	Percentage of issued share capital
Public	4,680	99.6	111,958,489	22.2
Non-public	20	0.4	393,321,511	77.8
Total	4,700	100	505,280,000	100

Distribution of shareholders per category

	Number of shareholders	Percentage of total shareholders	Number of shares in issue	Percentage of issued share capital
Individuals	4,443	94.5	55,264,732	10.9
Corporate bodies	98	2.1	378,669,528	75.0
Nominees and trusts	133	2.8	50,047,081	9.9
Pension funds and medical aid societies	26	0.6	21,298,659	4.2

Shareholder spread (by beneficial owner)

	Number of shareholders	Percentage of total shareholders	Number of shares in issue	Percentage of issued share capital
1 – 1 000	1,875	39.9	1,227,818	0.3
1 001 – 50 000	2,620	55.7	22,102,555	4.4
50 001 – 100 000	64	1.4	4,729,937	0.9
100 001 – 10 000 000	137	2.9	95,201,331	18.8
10 000 001 and above	4	0.1	382,018,359	75.6
Total	4,700	100	505,280,000	100

The Capricorn Group benefits from a diversified and empowered shareholder base.

Group milestones over the past 30 years

1982
Bank Windhoek acquired the business of Volkskas Bank in Namibia.

1990
Bank Windhoek amalgamated with the local branches of Trust Bank and Boland Bank to rationalise their banking services in Namibia. Namib Bou was established on 21 November.

1996
Bank Windhoek merged with Namib Building Society. BWH was incorporated on 5 September.

1998
BWH acquired WIB on 31 March.

2000
Bank Windhoek became the first bank in Namibia to establish a dedicated SME branch to provide financing for emerging small and medium enterprises.

2006
Bank Windhoek was the first bank in Namibia to introduce cellphone banking to the Namibian market.

2006
CIH and others acquired Absa's entire shareholding in BWH in November, making Bank Windhoek a 100% Namibian-owned and controlled bank.

2006
Bank Windhoek and ATM Solutions Namibia signed an agreement and the first Bank Windhoek Cash Express ATM was installed.

2007
Bank Windhoek successfully completed the roll-out of its community banking programme with ten community branches.

2009
With the implementation of the Namswitch project, Bank Windhoek started its card acquiring business with the roll-out of point-of-sale devices.

2009
The international EMEA Finance Magazine recognised Bank Windhoek as the best bank in Namibia, an accolade the bank has retained for four consecutive years.

2001
Recognising its role as a responsible corporate citizen, Bank Windhoek established its Social Investment Fund (SIF).

2001
In April, Bank Windhoek successfully converted to its new customer-centric banking system and became the first bank in Namibia to localise its systems, BW introduces internet banking for Namibia.

2003
BWH became one of the forerunners in broad-based black economic empowerment, with an empowerment transaction which saw Nam-mic acquiring a 7.1% stake in BWH. Over time, Nam-mic's shareholding increased to 9.4%.

2003
Bank Windhoek was awarded a grant from the Financial Deepening Challenge Fund, sponsored by the British government's Department for International Development (DFID). This enabled Bank Windhoek to fast-track its expansion into unbanked communities.

2003
The Bank Windhoek brand was transformed with the unveiling of the new modernised corporate identity and slogan "Together we do better".

2010
Bank Windhoek became the second largest bank in Namibia in terms of assets.

2012
In June, Bank Windhoek became the largest bank in Namibia based on loans and advances.

2013
BWH listed on the NSX in June and acquired 100% of the issued share capital of CUTM.

2014
BWH acquired 100% of the issued share capital of CAM.

2015
BWH published its first sustain-ability report.

2016
BWH changed its name to the Capricorn Investment Group (trading as Capricorn Group).

Our strategy

Vision and purpose

To be the most trusted and inspiring connector of positive change through a highly relevant, convenient and responsive network of people and channels that enables opportunities to be created, financed, transacted and secured, wherever we operate. The purpose of our group is to be a connector of positive change.

The As One strategy

The As One strategy was instrumental in bringing the group together after the listing in 2013 and aims to deliver on a differentiated experience in the markets where the group chooses to operate. We have taken the time to deeply reflect on what we stand for and what makes our group unique. In 2017 we will make the implementation of the fundamental building blocks of our strategy explicit to all stakeholders. The strategy formulation process resulted in initiatives being identified for each of the six strategic focus areas to develop relevant capabilities that contribute towards sustainable relationships, solutions and value for all stakeholders.

asone strategy

Strategic focus area	Strategic intent
CUSTOMER VALUE PROPOSITION	We will differentiate ourselves through our unique service offering and our customer experiences which will be driven by a customer-centric strategy and culture.
EMPLOYEE VALUE PROPOSITION	Success in achieving superior performance will depend on the handshake between the group and employees. This handshake is embodied in the Capricorn Code, a new employee code which sets out the desired behaviors for employees.
SUSTAINABILITY AND STAKEHOLDERS	We achieve our goals responsibly. We adhere to the strictest ethical standards and continuously engage with our stakeholders. We believe that sustainability comes from a firm focus on profit, our people and the planet.
DIGITAL CHANNELS	We will drive the digitisation of our channels not only to keep up with the market demands, but also to lead with new technology.
BENEFITS MANAGEMENT	To build real value for all stakeholders, we will need to prioritise value-adding initiatives. Our initiatives are chosen based on a combination of the highest value created for stakeholders and mitigating risks beyond our appetite level.
BRAND MANAGEMENT	Market leadership depends on crafting and maintaining a unique identity. We continue to invest in our powerful brands that have earned their high value through exceptional customer service.

Read more about progress and performance related to each focus area in the managing director's report from page 46.

The group-wide As One strategy was approved by the board in 2014 and translated into strategic focus areas for each group entity.

The board reviews the strategy on an annual basis. The board incorporated the strategic conversation in their quarterly meetings due to the volatility and large scale uncertainties in the global markets.

The successful implementation of the strategy relies on the group becoming more agile in diversifying its value propositions. To mitigate strategic risks, Capricorn Group has to remain relevant and competitive while attracting the relevant skills and talent to deliver on its strategy.

Sustainability approach

As a truly Namibian organisation, Capricorn Group has always taken pride in its close relationship with customers and the communities in which it operates. It is through these relationships that the group senses and responds to stakeholder needs to create shared value. Capricorn Group's sustainability approach entails progressively expanding its connections with stakeholders through the methodical identification of key performance areas and the setting of operational targets.

Capricorn Group identified the following key sustainability performance areas:

Society

- Community engagement
- Access to financial services
- Financial literacy

Employees

- Health and safety
- Leadership and skills development
- Diversity

Environment

- Water and energy efficiency

Economy

- Supply chain sustainability
- Infrastructure development

Financial sector

- Customer satisfaction
- Environmental and social management system for lending

During the past year, key performance indicators (KPIs) were developed for each area, and performance targets are in the process of being confirmed. KPIs are integrated with the risk management process and reported in a combined scorecard.

The Capricorn Group sustainability framework, approved by the board in September 2015, provides the structure and processes through which the group is able to create enterprise-wide awareness and ensure aligned thinking and practices. The sections following highlight the most material aspects related to Capricorn Group's sustainability approach and key performance areas.

Societal priorities

Community engagement

The Bank Windhoek Social Investment Fund (SIF) was established in 2002 and serves as the corporate social investment (CSI) vehicle for the Capricorn Group. The SIF supports Namibia’s NDPs and aligns with the sustainability priorities of the group entities, which are informed by feedback from stakeholders. During the year under review, Bank Windhoek invested N$8.4 million in Namibian communities through its Corporate Social Investment Programme which includes its Social Investment Fund, sponsorships and donations as well as the bank’s consumer education and financial literacy initiatives. All funding is guided by the group’s CSI policy, which provides a framework to ensure proper administration and optimal impact. The selection process includes the identification of non-political and reputable institutions, and require specification of objectives, target beneficiaries, measures, detailed budgets and robust reporting. Applications are all considered against the requirement of ability to attain self-sustainability.

The newly established board sustainability and ethics committee will provide future oversight of investment projects and progress.

Through CSI projects, the SIF aims to assist beneficiary organisations to attain sustainability, or to assist those beneficiary organisations to achieve sustainability for their members or community members.

Through sponsorships and donations, the group aims to create opportunities for stakeholder engagement.

The group’s approach is to encourage all beneficiaries and stakeholders to form collaborations to avoid duplication and to ensure that the available resources are used efficiently to ensure maximum impact.

The SIF has three focus areas:

Focus area	Project case study and highlights
HEALTH	The Cancer Association of Namibia (CAN) is one of the largest beneficiaries of the SIF through the Bank Windhoek Cancer Apple Project. The project is widely considered Namibia’s biggest national fundraising effort. The project has collected more than N$17 million since its inception 16 years ago and raised a record N$2.6 million for CAN last year. It aims to create awareness about cancer and to educate the Namibian public on how they can protect themselves against cancer and live healthy lives.

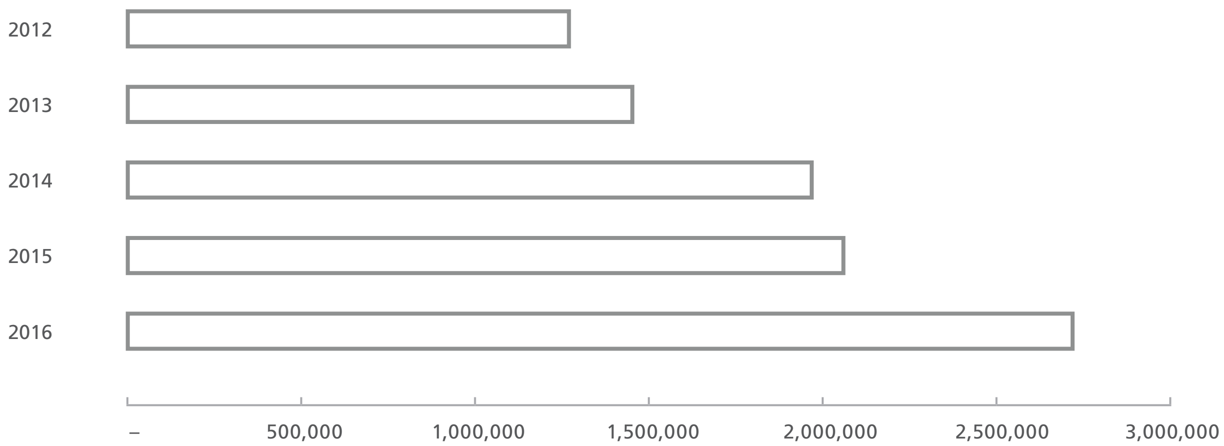
Focus area	Project case study and highlights
HEALTH (CONTINUED)	Capricorn Group employees also support CAN through the Entrepreneurial Challenge for Bank Windhoek. Each branch, department and agency receives seed capital from the bank to organise projects to raise funds for CAN. In 2015, a total of N$415,000 was raised by employees through the entrepreneurial challenge.
EDUCATION/ TRAINING	The Financial Literacy Initiative (FLI) of the Ministry of Finance is a national platform to enhance financial education for individuals and micro-, small- and medium-sized enterprises. Bank Windhoek SIF is one of more than 25 platform supporters who work in a coordinated effort to improve the financial capability of all Namibians. In the 2016 financial year, the bank's SIF invested more than N$1.8 million on FLI projects, including initiatives such as the Consumer Education Industrial Theatre Show, financial empowerment courses at the Susanna Grau-Heim, Women at Work and the Windhoek Pre-primary School. Bank Windhoek further educates customers on financial matters through a regular newspaper column.
JOB CREATION/ ENTREPRENEURSHIP	The Men-on-the-side-of-the-road (MSR) projects links unemployed people with jobs and training opportunities. MSR assists men by improving existing skills or learning a new skill to be able to earn a living from it. This includes life skills training that enables them to communicate with future employers, write a CV and conduct themselves while being employed. The second training, called Money Management, provides the basics on finances, how to budget, how to save and how to spend wisely. Once they have completed these two trainings, participants are provided with a membership card and are formally registered, after which they have access to further training opportunities. For 2016 MSR recruited 89 members of which 41 underwent training. MSR was also able to facilitate employment for 88. Women@Work was established as a training centre in 2006 to empower poor and disadvantaged women with skills to enhance their livelihoods. The training provides women with employable skills that can also give rise to entrepreneurial endeavours. Training focus areas include home management, dressmaking, cooking and baking. Women@Work also runs an employment bureau through which they help trainees to obtain permanent employment.

www

Read more about CSI initiatives on the Bank Windhoek website in the CSI report at www.bankwindhoek.com.na

Read more about future focus areas related to the Harambee National Prosperity Plan from page 14.

Social Investment Fund spending on projects (N$)*



* Excluding sponsorships, donations and financial literacy initiatives

Sponsorships

Sport sponsorships included Athletics Namibia, the Bank Windhoek Schools Netball Super League, the Corporate Challenge Relay in aid of Welfare, the National Enduro Series and the Seven-A-Side Soccer Tournament. Two new sponsorships for the year was for Namibian Hockey and for the Namibia Tennis Federation.

Other sponsorships are aimed at supporting agriculture and farmers. Bank Windhoek also remains the biggest corporate sponsor of the arts and culture in Namibia.

Access to financial services

Capricorn Group's geographic reach facilitates the most widespread access to banking services in economically advantaged and disadvantaged regions in Namibia. Through its network and subsidiaries, the group offers a range of products and services aimed at the low-income market. In addition to the basic bank account, Bank Windhoek also offers the EasySave account, a transaction account with very low banking fees that provides EasySave customers with access to internet and mobile banking and also offers an embedded life policy.

As a co-creator of the Namibian Code of Banking Practice, Bank Windhoek embraces the principle of transparency in fully disclosing fees for products and services.

Financial literacy

Bank Windhoek is a proud member and supporter of the Financial Literacy Initiative, launched by the Minister of Finance in 2012. Financial literacy is the ability to make informed judgements and take effective decisions regarding the use and management of money. Bank Windhoek regards financial literacy and consumer education as critically important to empower its customers to make the right financial choices. During the year, Bank Windhoek was elected onto the executive committee of the Financial Literacy Initiative, to oversee the activities and plans of this voluntary member-based organisation.

Employee priorities

Leadership and skills development

Capricorn Group employs 1,618 people (2015: 1,551) of whom 1,592 are Namibian citizens (2015: 1,521). This supports Namibian localisation and empowerment initiatives encapsulated in the New Equitable Economic Empowerment Framework (NEEEF). In recognition of the skills scarcity in the country, Capricorn Group is investing in capacity to support future growth and expansion. Due to the growing need for experienced and qualified employees within the banking sector, talent management will remain a focus. Bank Windhoek's accelerated training programme fast-tracks the development of talented employees in key areas where skills shortages exist. All employees are given the opportunity to participate in Bank Windhoek's various training and development programmes, which include operational training, skills training and assistance to obtain qualifications through the Institute of Bankers.

Bank Windhoek's bursary scheme assists Namibian students to study at institutions of higher learning and facilitating experiential learning at vocational and academic institutions.

The Leadership Exploration and Development (LEAD) programme and the Capricorn Talent Academy (CTA) provide opportunities for senior and middle management respectively to improve their leadership skills.

Skills development milestones for the year:

24	41
employees attended the uniquely developed LEAD programme	delegates attended the uniquely developed CTA programme

Environmental priorities

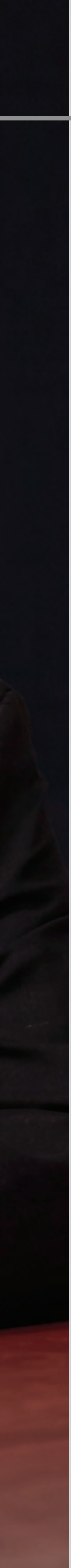
Against the backdrop of increasing environmental regulations, finite resources and increasing costs, the group expects its operations to manage, measure and report on its environmental impact. Capricorn Group's business activities consume energy and water. As both resources are at risk in Namibia, they require the proactive management of the group's ecological footprint. Capricorn Group is improving its eco-efficiency through the Resource Efficiency Programme aimed at the group's main buildings in Windhoek. The programme follows the first audit on water and energy consumption done in 2015, and aims to reduce and optimise usage. Recommendations have been integrated into the group's operational planning for 2017.

In May 2015, a project was launched to develop and implement a best practice environmental and social management system (ESMS) to guide Bank Windhoek's credit allocation and lending activities. This included the development of appropriate policies and procedures to implement the system.

04 CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

KOOS BRANDT



"Stakeholder management is important because it enables us to sense the needs of stakeholders and to respond appropriately and consistently"

It is becoming rare to detect the spirit of entrepreneurship in the world of financial services. Banks have to adapt strategies and business models to fit the narrowing parameters of regulation, while considering often conflicting demands well beyond the voice of the shareholder. At Capricorn Group, relationships have always been at the core of our business. We are confident of our ability to continue to create value, despite many challenges in our operating environment. We are also able to retain our spirit of entrepreneurship as we share our learnings with stakeholders who use our support and guidance to start new ventures and bring growth to Namibia.

Capricorn Group's new vision is to be the most trusted and inspiring connector of positive change through a highly relevant, convenient and responsive network of people and channels that enables opportunities to be created, financed, transacted and secured, wherever we operate. As our identity and ethos is so closely linked to the well-being of our country, we share the responsibility to bring positive change, thereby creating an environment of improved equality, empowerment and prosperity.

Namibia has been in the fortunate position the last couple of years to have weathered the economic storms better than most, mainly due to strong performance from the construction and tourism sectors. Unfortunately economic and policy stability has been taken for granted and the lack of fiscal prudence is placing government finance under renewed pressures. This coupled with continued socio-economic issues such as poverty and inequality is posing a particular risk that government may seek to address long-term structural problems with unsustainable short-term solutions. These solutions usually has numerous unintended and undesired outcomes.

All the neighbours of Namibia are suffering from severe economic downturns due to, inter alia, lower commodity prices and a persistent drought. Evidence of the economic hardships are clearly visible in the depreciating currencies which is further exacerbated by capital outflows placing enormous pressures on the respective balance of payments accounts.

Capricorn Group's approach to sustainability means taking a long-term, holistic view that considers the perspectives of all stakeholders. This translates into an imperative to carve out an organisational structure that will support the Capricorn Group of the future. We have listened to our customers and gained an understanding of the gaps in our service offering and of the manner in which they would like to interact with us. We have listened to our employees to understand what they need in order to be more effective. We have observed what works in other organisations and other parts of the world. This knowledge helps us to lay a solid foundation that will enable us to achieve an end state that constitutes a sustainable organisation, able to respond quickly to changing market opportunities.

Operating Environment

Namibia as a small but open economy is particularly susceptible to external shocks from the region and indeed the world in general. The Capricorn Group, as a major player in the Namibian economy, is not insulated against these shocks.

During the past year Namibian businesses, along with businesses in most emerging markets, have experienced the global slowdown which is in part driven by lower commodity prices and slumping demand from China. Regional economies are bearing the burden of a continuing drought, electricity shortages, constrained liquidity and tighter monetary policy.

The South Africa economy is particularly challenged by a weakening currency, political and social turmoil, high unemployment and the risk of losing its investment grade credit rating. The South African Reserve Bank has revised its growth figures for the economy lower to 0% for 2016 while we expect Namibia to record growth at a slower, but still respectable level of 3.20%.

These growth figures are, however, at risk as policy uncertainties regarding the Promotion of Investment Bill and the New Equitable Economic Empowerment Bill are mounting and may prove to discourage both local and foreign investments. Further concerns are mounting with national debt increasing and foreign reserves shrinking to unacceptable levels. It is expected that the budget deficit this year will be much larger than the budgeted shortfall as government struggles to grow and collect from various revenue streams. Some progress has however been made towards fiscal consolidation as government has placed non-essential operational expenditures and non-productive capital outlays on hold. This will unfortunately affect economic growth negatively as government is such a key driver of economic growth in the country.

Locally water shortages are delaying construction projects, further deteriorating the outlook for economic growth from which the financial sector shall not be spared. The drought has also impacted most agricultural sectors and new South African restrictions limiting export opportunities shall continue to place local producers under further pressure.

The Namibian banking sector

The local banking industry remains fairly competitive. The increase in the number of diversified financial services providers, such as asset managers, micro-lenders and investment advisors, further added to the competitive dynamic. Interconnectivity and technological advances have made real-time data and information easily accessible. This means that movements in global markets have an impact on the local economy, and thus the banking sector.

Namibia has a stable, well-regulated and profitable financial sector. The total assets of commercial banks approximated N$100 billion at the end of 2015, which equated to 68% of the GDP. The banking sector is solvent and more than adequately capitalised. The non-performing loan ratio of 1.6% at the end of 2015 was well below the international benchmark of 4%.

In the past year, the Namibian banking sector showed a return on equity (ROE) of 24% compared to South African banks at 17%. Investing in an index of the top 40 companies on the JSE would have yielded a return of less than 15%.

Specialised skills in the banking industry remain scarce. With banking licences issued to new entrants and the fact that the banking industry also competes with other industries for these skills, the situation is set to worsen if not addressed. Namibia still lacks skills in the critical business banking areas. These skills are required to assist in the growth and development of the financial sector.

The Namibian president, Dr Hage G Geingob, at a meeting with representatives of banking institutions in May 2016, voiced his expectations as follows: *"Uniquely Namibian challenges related to the financial sector include economic inclusiveness, access to finance, availability of financial facilities and effective service delivery for all. To meet these, the banking sector has to play a role in economic development, which includes youth enterprise development (by financing employment-generating activities) and economic competitiveness."*

Over the past few months the increased local issuance of government treasury bills have increased competition between banks and government for the local, highly concentrated, deposit pool. This has generally led to deposit rates in Namibia remaining consistently above that of South African banks across all tenures

The spirit of governance

The Capricorn Group board is accountable to stakeholders for the sound management of the group and ensuring that our governance structures remain effective. This requires continuous review and response to adapt to market and regulatory changes. The establishment of a new board committee to oversee sustainability and ethics imperatives is an example of how our governance structures respond and create value within a dynamic operating environment.

The role and purpose of the new committee is to create an independent, objective body that will assist the board in ensuring that Capricorn Group remains a reliable corporate citizen through the implementation of a sustainability and ethics strategy and reporting framework. The board also separated the nominations and remuneration committee into two separate committees during the year. This change will further sharpen our focus and ensure that we operate effectively.

We initiated a revision of Capricorn Group's ethics risk agenda and ethics framework. The emphasis of the framework is on the application of rules, compliance and external enforcement. The group's ethics strategy and management process meet the requirements from a financial services and NamCode perspective, and the intent is to mature the framework to an integrity-based guide with the focus on culture and "the way things are done".

While we have approached ethics from a risk perspective in the past, we are now encouraged to recognise the ethics opportunities and strengths in Capricorn Group, which have resulted in strong relationships of trust being entrenched over the years.

Risk management at Capricorn Group

Capricorn Group has a well-developed and robust risk management framework that is fully integrated into our business structures and processes. For example, we are cognisant of the fact that Bank Windhoek's size and market presence pose significant systemic risk should the institution fail. We therefore have a proactive and forward looking approach, with key risk indicators tracked and reviewed continuously by management and quarterly by the BARC.

Liquidity constraints has emerged as one of the significant systemic risks in our economy, with potential negative impacts for Capricorn Group. Constrained liquidity usually leads to aggressive upward pricing for liabilities thus depressing margins and reducing profitability. Liquidity risk affects private sector and governments alike. In the case of government it places undue pressure on the fiscus and inhibits spending that would otherwise stimulate the economy. Due to the fact that the Namibian dollar and economy are intrinsically linked to South Africa, Namibia is also exposed to the ebb and flow of investor sentiment as reflected in currency and capital markets.

As a banking group, we have been proactive in managing liquidity risk and have been able to diversify our funding base. This was achieved, amongst other initiatives, by Bank Windhoek obtaining funding from the International Finance Corporation (IFC) and from the Deutsche Investitions- und Entwicklungsgesellschaft (DEG). We also remain committed to responsible lending as a way to ensure stability in the industry.

The growing incidence of financial crime is becoming one of our main concerns as it has the potential to disrupt the stability of the entire sector and destroy the trust that customers have in financial institutions. Capricorn Group will increase its investment in technology infrastructure and mechanisms to combat financial crime, and will continue to work with other players in the industry to improve our view on trends, thereby enabling us to identify risks earlier. At Bank Windhoek, we have implemented several practical measures to safeguard assets, information and transactions.

Stakeholder relationships and connections

Stakeholder capitalism, creating a win for every stakeholder, demands that we continue considering value creation in terms of Capricorn Group's contribution to all individuals and groups with an interest in the company, and not only to shareholders. In 2015, the Capricorn Group initiated an encompassing stakeholder relationship management and engagement project, which identified the expectations of key stakeholders. Subsequently, these were included in the development of a stakeholder relationship management framework, strategy and policy guidelines.

Stakeholder management is important because it enables us to sense the needs of stakeholders and to respond appropriately and consistently. This is vital to the continued growth and success of the Capricorn Group.

Government and the regulators are some of Capricorn Group's key stakeholders. As a majority locally owned financial services group, we are often their first port of call for support, as we share the same ambitions for local growth and development. Often this means that expectations of Capricorn Group are higher than is the case with foreign owned institutions, especially on contentious issues such as importing skills.

Another important relationship is with our associates, Santam and Sanlam. We are placing significant focus on how to better leverage our customer bases and create cross-selling opportunities while adhering to existing governance structures and requirements. We also realise that the bancassurance model is one that we can further replicate to create new products and services that are complementary to Capricorn Group's current portfolio.

Leadership and board changes

The past year will stand out for the number of leadership changes made at Capricorn Group. In light of the growth of Capricorn Group and an evolving group operating model, the board decided towards the end of 2015 to separate the combined roles of managing director for Bank Windhoek and Capricorn Group, held by Christo de Vries since June 2011. As part of an orderly transition, the responsibilities of managing director of Capricorn Group were handed over to Thinus Prinsloo in January 2016. This allowed Christo de Vries to focus on the leadership transition at Bank Windhoek which was necessitated as a result of his contract ending in June 2016.

The replacement of the managing director of the company was done in accordance with the predetermined succession plan, while the newly created position for a separate managing director at Bank Windhoek required an extensive recruitment process. A number of independent board members were involved in the process, which resulted in the appointment of Baronice Hans as managing director designate from 1 February 2016 and from 1 July 2016 as managing director.

These leadership changes were designed to ensure sustainability and continuity in the implementation of the growth strategy of the group. We congratulate both managing directors on their appointment, and look forward to their contribution in creating value for stakeholders.

Gerhard Fourie was appointed as a non-executive director to replace Eric Knouwds, who retired on 3 November 2015. Eric Knouwds joined the Capricorn Group board on 1 April 2004 and served the group for almost 12 years. He will remain as a trustee on the boards of the BWH Employee Share Ownership Trust and the BWH Employee Share Benefit Trust.

The board wishes to thank Eric Knouwds sincerely for his wise counsel and valuable contributions to our group over the past 12 years.

Appreciation

The first word of appreciation for this year goes to Christo de Vries, who led the group through a highly successful repositioning and the listing on the NSX in 2013, while delivering consistently excellent results throughout his tenure. He has done an outstanding job in establishing Capricorn Group as a reputable listed entity, while driving strong disciplined performance at Bank Windhoek. During his tenure we have also been able to advance our governance and risk management structures and contained costs through introducing operational efficiencies. We wish him all the best for the next phase in his career.

I also thank the board of directors for their undivided commitment to the cause of our group and providing direction and guidance. We also thank government and society for providing a receptive environment in which we as a group can continue to create value for our country and its citizens.

The consistent growth and positive performance of the group can also be attributed to our loyal and expanding customer base, and the continued commitment of our leadership and employees. We are in the enviable position of having scale, capacity, capability and infrastructure. Our challenge now is to attract further growth through diversification and acquisitions.

Koos Brandt
Chairman

05 MANAGING DIRECTOR'S REPORT

MANAGING DIRECTOR'S REPORT

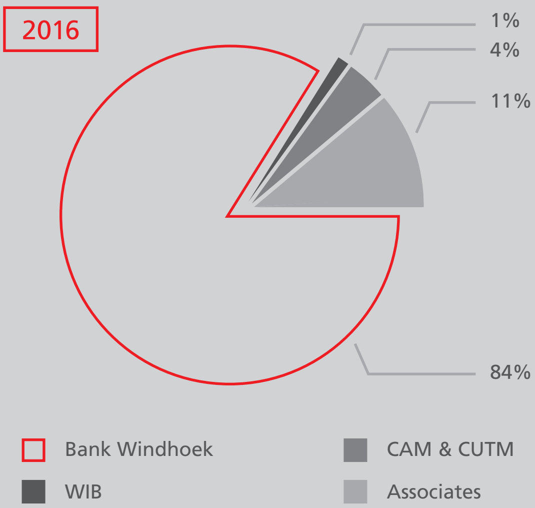
THINUS PRINSLOO

Overview

The Capricorn Group continues on its consistent, long-term trajectory of solid performance and profit growth. The group delivered growth in profit after tax of 20.2% to N$905 million and realised a return on average equity of 22.9% (2015: 22.4%). This was the fifth consecutive year of profit growth in excess of 20%.

The financial soundness of the Capricorn Group was confirmed by the group and Bank Windhoek's rating by Global Credit Rating (GCR) at the end of 2015: AA(NA) in the long and A1+(NA) in the short term with the outlook as Stable. According to GCR, these ratings reflect the Capricorn Group's strong market position in the Namibian banking industry and significant presence in the insurance and asset management markets, stable capitalisation and earnings generation, enhanced risk management framework and conservative risk appetite.

Subsidiary contributions to profit after tax, showed little change from 2015 with Bank Windhoek continuing to be the largest contributor to group profit after tax.



Strategy progress and project outcomes

Capricorn Group's growth and performance path is directed by the As One strategy of the group, which aspires to position the group as a leader in financial services, delivering sustainable value for all stakeholder groups.

The current competitive landscape in Namibia is still fairly stable compared to similar industries in the rest of the world. Increased competition is most evident in the banking segment, which features new offerings in mobile payment and wallet solutions. Capricorn Group is not a pioneer in this area: we see our strength in the ability to partner with new entrants as the provider of a banking platform, thereby remaining focused on our core business, while facilitating joint entry into new segments and markets.

Capricorn Group's strength lies in its customer relationships, which are in most cases strongest on a branch or office level. Our decentralised model continues to serve us well: it facilitates quick decision-making based on local insights and understanding of the market.

Diversification remains the core driver of long-term growth. We also continue to scan the market for any corporate transactions that could add value and that meet Capricorn Group's risk appetite.

Read more about our strategic focus areas on page 28.

During the past year, we made progress in all strategic focus areas:

Customer value proposition (CVP)

Our work in this area started with the development of a customer contribution model which we use to segment and profile customers. This provides a multidimensional view of customer demographics, behaviours and needs. We started using this model to drive internal targets, to formulate operational plans and to identify opportunities for improved product and service offerings.

In the past year, we identified the wealth segment as our first major area of focus as we started to better align our costs to customer contribution, acknowledging that all customers do not require the same level of service or engagement. A significant new offering targeted at the wealth segment is set to be launched in the new financial year.

In the next year, the focus will be on expanding our understanding of touchpoint requirements and completing an encompassing customer strategy, which will include a refreshed value proposition for the middle market. Further work will be done on improving customer-centric awareness and service throughout the group. There is also an opportunity for us to reposition our corporate offering.

Employee value proposition (EVP)

Our success in delivering on Capricorn Group's CVP and brand promise relies on the skills and support of our employees. Therefore, Capricorn Group's internal focus was on building an EVP that is based on the concept of a handshake, which brings together the expectations and responsibilities of both employee and employer. We used focus group conversations to understand how all parties perceive, for example, remuneration, culture and performance management.

These principles are captured in a code that will be launched in the new financial year, setting out Capricorn Group's truths, norms and behavioural capabilities, with associated communication and training initiatives. The EVP will support Capricorn Group's new purpose and will align everyone to act as one towards all stakeholders in a manner that is customer focussed, collaborative, transformational, results orientated and entrepreneurial.

Sustainability and stakeholders

In 2015, Capricorn Group published its first sustainability report to reflect the group's commitment to economic, social and environmental value creation. We have identified the material key performance areas for the group and are in the process of setting targets and entrenching our reporting process. We have also established a new board committee to oversee this aspect of our business.

An example of a practical application of sustainability in the bank is the integration of the Environmental and Social Management System (ESMS) into our lending process, which was completed at the end of the financial year. Credit applications are now evaluated against formal social and environmental criteria, with policy specifications about excluded industries.

Stakeholder relationship management is linked to our sustainability ambitions as it provides an important feedback mechanism to ensure that we address relevant matters in the way we do business.

A group stakeholder audit was completed in 2015 and provided us with a range of insights. We have developed a group stakeholder policy that encourages understanding of stakeholder issues and strives to find solutions that will generate stakeholder value. This is vital to growth and success with the potential of becoming a competitive advantage for Capricorn Group. Our stakeholder relationship management guide will now align the entire group in creating stakeholder maps, obtaining input, developing an engagement plan and measuring success in the outcome of these engagements.

Digital channels

Capricorn Group's digital focus areas were defined by the work done in developing our CVP.

As customer needs develop and change, and a new generation of financial services users emerge, we might run the risk of losing market share. Therefore, we created additional capacity to explore the digital needs of customers – from individuals to businesses and from the top to the bottom of the pyramid. Our approach encompassed entire ecosystems, where we can, for example, facilitate payments between different and often unrelated players.

In the past year, we launched the first version of a Bank Windhoek mobile app for smart devices, offering a one-stop-shop banking experience enabling customers to manage their accounts and transact securely from anywhere they choose. We continue improving the functionality and scope of the offering.

We also invested in a new customer acquisition system, which standardises the process and ensures that we ask a customer only once for information. It reduces duplication, is easy to update and provides seamless access to data from different parts of the business.

For the next year, the focus will be on several industry-specific payment solutions, with potential further commercial applications that are relevant to the Namibian market.

Benefits management

The work done in the different strategic focus areas resulted in a range of strategic projects being initiated throughout the group – often overlapping with or complementing initiatives in other areas. We have recognised that Capricorn Group has to further develop and improve its project management capability to ensure effective management, measurement and integration of these projects. We have established a projects office to embed the full range of project management skills into the group and to start applying a consistent methodology. Going forward, there will be improved oversight of the quality of project plans and schedules as well as delivery.

Brand management

In 2014, Capricorn Group started the process to explore a monolithic brand architecture to align the entities in the group with a common brand vision, proposition, purpose and values. We recognise the value of building a single powerful brand with a unique identity.

With targeted brand and market research, we tested new visual identity and name options for the group. In June 2016, the board approved the new name (Capricorn Investment Group Limited) and logo, supported by a purpose statement and values that will set the direction for the group's future brand strategy.

The new brand provides a shared vision to drive business performance, culture, experience and attitude.

Our EVP is aimed at keeping and delivering on the new brand purpose: to be a connector of positive change. The new brand values have been aligned with the new citizenship code mentioned previously, to ensure that we keep the promises we make through the right behaviours and attitudes.

The new brand identity of the Capricorn Group is launched with the release of the group's first integrated annual report.

Regulatory landscape

The BoN's capital adequacy requirements are in line with Basel II: a total risk-based capital ratio of 10% and a Tier I risk-based capital ratio of 7%. This is to ensure that banking groups have a sufficient buffer to absorb losses. Capricorn Group's ratios stand at 15.8% and 14.3% respectively – well above legislative requirements.

We continue to prepare for the capital liquidity requirements of Basel III over the next few years.

A highlight for this year was Capricorn Group's ability to diversify its funding sources internationally through loan funding from the IFC and DEG.

A challenge over the past year was the implementation of new regulations from April 2015 that prohibited certain over-the-counter fees as a mechanism to increase access to banking for low-income customers.

Following the Namibian payment industry's decision to adopt international standards to safeguard card transactions against fraud, some infrastructure and network adjustments were made at Bank Windhoek during the year.

The group's most significant compliance risks relate to the NSX Listing Requirements, Banking Institutions Act, anti-money laundering and labour legislation, tax, payment systems legislation and industry standards.

We had to ensure compliance with the newly promulgated Foreign Account Tax Compliance Act (FATCA), which is a US-based requirement to prevent taxpayers from concealing their assets from the United States Internal Revenue Service (IRS) in order to avoid paying tax.

Capricorn Group continues to monitor changing regulations, while contributing directly and indirectly to addressing the related risks to business and society.

Financial performance

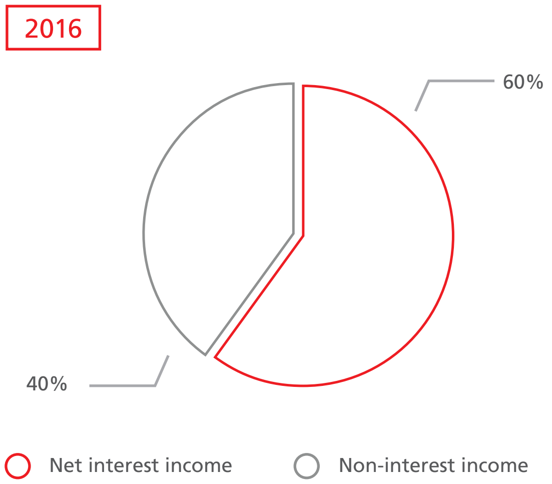
The table below sets out the salient features of the group's financial performance over the past five years.

	2012	2013	2014	2015	2016	Five-year CAGR*
STATEMENT OF COMPREHENSIVE INCOME (N$'000)						
Total income	1,246,390	1,437,645	1,736,630	2,079,559	2,411,946	17.6%
Operating profit	514,636	648,083	792,874	979,023	1,171,014	23.7%
Profit for the year after tax	402,611	493,271	624,915	753,002	905,048	22.5%
Total comprehensive income for the year	416,646	515,630	639,159	781,488	938,513	23.3%
Earnings per share (cents)	89	108	125	150	181	19.8%
Dividends per share (cents)	25	33	44	53	66	23.5%
STATEMENT OF FINANCIAL POSITION (N$'000)						
Total assets	18,921,050	20,938,608	24,318,268	28,608,842	32,333,653	15.1%
Total loans and advances to customers	15,484,932	17,651,962	20,245,395	23,621,871	26,598,023	15.4%
Total deposits	15,673,732	16,915,652	18,782,411	21,993,998	23,724,128	12.5%
Net asset value per share (cents)	417	532	617	728	856	19.6%
PERFORMANCE INDICATORS (%)						
Return on average equity	23.3	21.9	21.9	22.4	22.9	
Return on average assets	2.3	2.5	2.8	2.8	3.0	
Impairment charges as % of average gross loans and advances	0.18	0.16	0.15	0.26	0.24	
Non-interest income as % of operating income	37.9	37.1	39.8	40.2	40.6	
Cost-to-income ratio	57.9	54.1	53.6	51.6	50.2	
Operating expenses as % of profit before tax	124.0	107.5	104.1	97.7	93.0	
Closing share price (cents) at 30 June		1,015	1,115	1,556	1,724	
Price-to-book ratio at closing price per share		1.9	1.8	2.1	2.0	
Price-to-earnings ratio at closing price per share		9.4	8.9	10.3	9.5	
CAPITAL ADEQUACY (%)						
Total risk-based capital ratio	13.4	16.6	15.8	15.8	15.8	

* Compound annual growth rate

The group derives income from interest and non-interest income, the latter relating to fees and trading activities. We continuously aim to increase our non-interest income ratio as a measure of successful diversification and growth over the long term.

Net interest vs non-interest income



Net interest income increased by 15.1% to N$1.5 billion (June 2015: N$1.3 billion), which is mainly due to growth in interest earning assets of 13.1% and the net interest margin improving slightly to 4.8% (June 2015: 4.7%). The improved interest margin has been achieved notwithstanding the increase in the average cost of funding resulting from the group's strategy to diversify sources of funding.

In anticipation of the increasing challenges in economic conditions, renewed focus has been placed on the credit granting criteria in an effort to maintain, as far as possible, the quality of the loans and advances portfolio.

Impairment charges remained stable, increasing by 4.2% to N$60.8 million (June 2015: N$58.3 million).

Given the pressures of current economic conditions, non-performing loans as a percentage of gross loans and advances increased from 1.09% to 1.32%, still well within generally accepted banking norms.

Our customers in all areas of the business are under pressure following rising interest rates, higher inflation and increasing public utilities. This is evident in slowing retail and new car sales in Namibia.

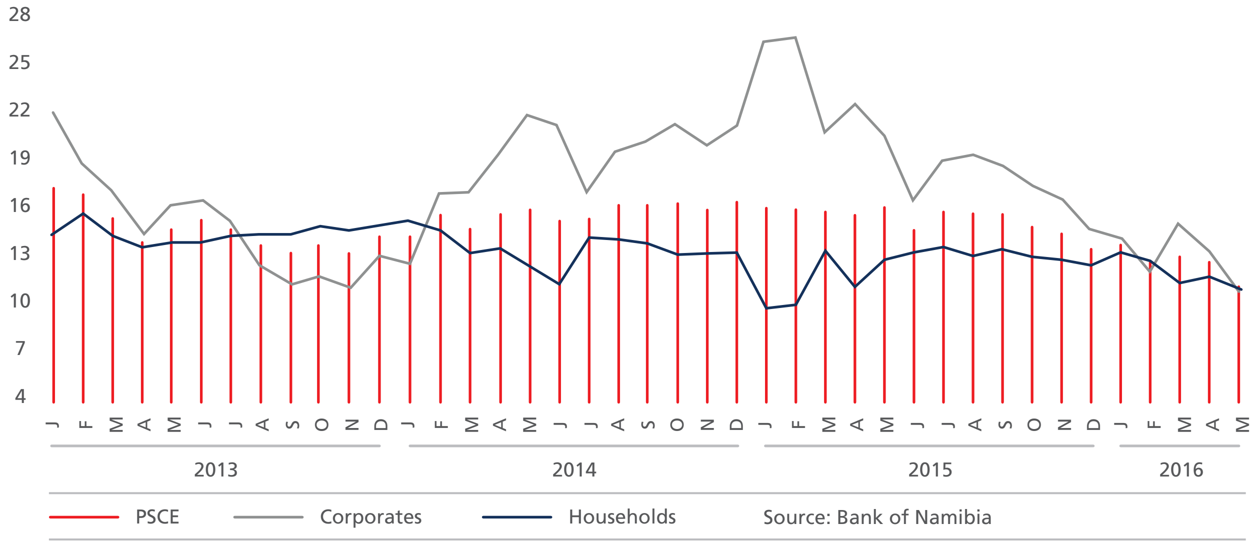
Affordability remains one of the key criteria in making credit decisions, as we are committed to responsible lending. This is an important factor in creating stability in the Namibian financial sector.

As a result of the group's strategy and focus to further diversify its revenue streams, non-interest income growth exceeded the growth in net interest income after loan impairment charges for the third consecutive year, increasing by 17.4% to N$953.8 million (June 2015: N$812.6 million).

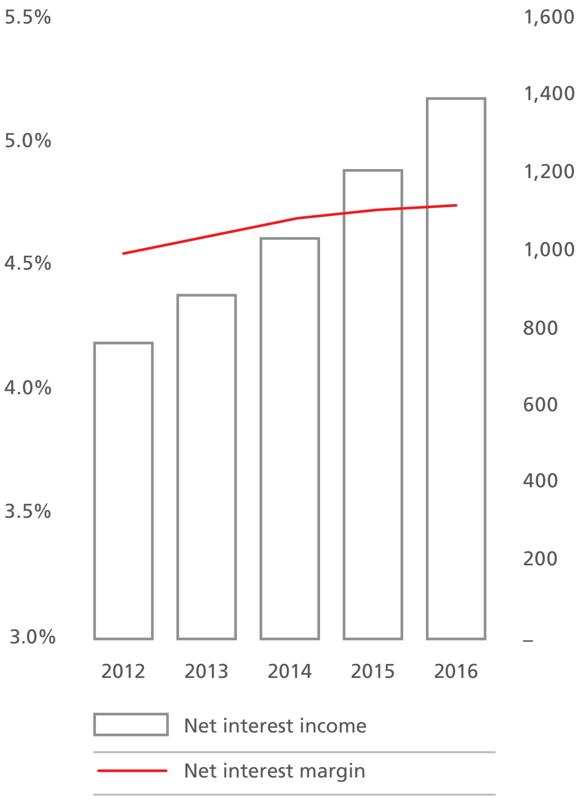
This is mainly due to growth in transaction-based fee income and trading income. Transaction-based fees continue to be the largest contributor and increased by 8.1% despite the implementation of zero cash handling fees from 1 April 2015. Trading income's contribution to non-interest income increased to 15% (June 2015: 11.8%), due to the income earned from the Kwanza trading activities and the volatility in the currency markets during the year under review. The dispensation from Bank of Namibia for Namibian banks to trade in Kwanza was withdrawn in December 2015.

The group continues to improve its efficiency ratios with non-interest income covering 80.8% (June 2015: 78.0%) of operating expenses and contributing 40.6% to operating income (June 2015: 40.2%).

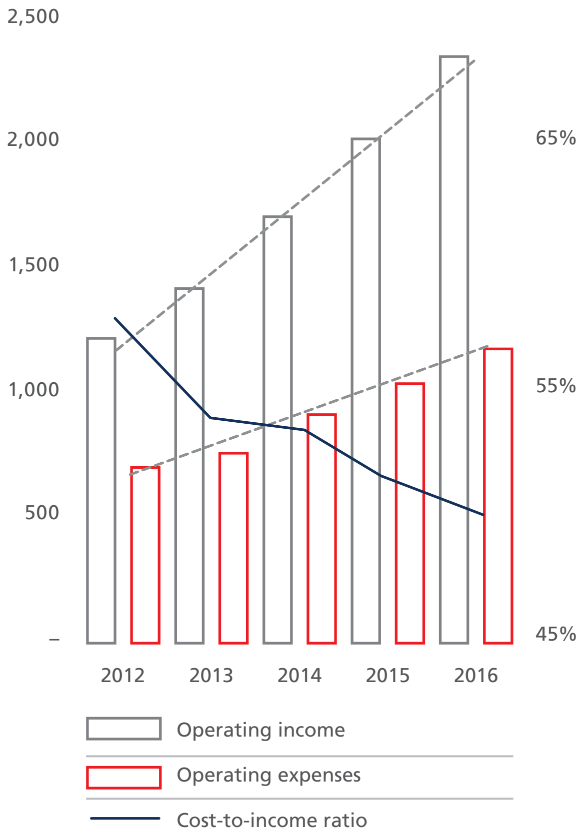
Credit growth expected to slow



Net interest income after loan impairment charges trend (N$ million)

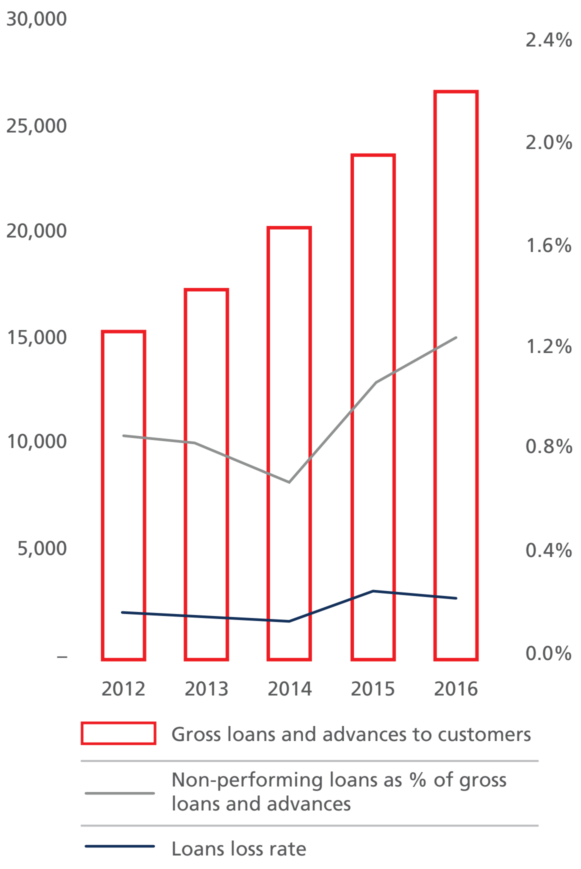


Operating performance trend (N$ million)

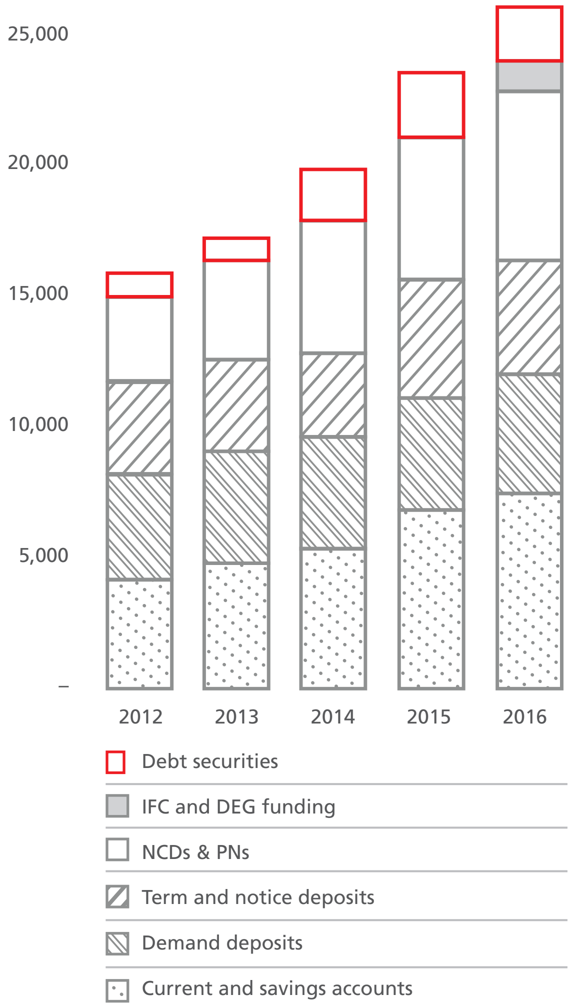


Operating expenses increased by 13.2% to N$1,180.2 million (June 2015: N$1,042.2 million). The growth is in line with the prior year and the average of the last five years. The increase in operating expenses is mainly due to the increase in staff costs and technology-related expenses. The cost-to-income ratio improved to 50.2% (June 2015: 51.6%), with operating income growth of 16.3% exceeding operating expenses growth of 13.2%.

Gross loans and advances vs impairments (N$ million)



Funding contribution (N$ million)



The group's total asset growth of 13.0% is driven by the growth in loans and advances of 12.6%, which is mainly due to growth in overdrafts and mortgage loans. Compared to 2015, the growth in loans and advances has slowed, mirroring the industry growth in credit to the private sector. Total funding increased by 12.1%, comprising a 7.9% increase in deposits to N$23.7 billion and in other borrowings of N$1.2 billion, consisting of long-term loans from the International Finance Corporation and the Deutsche Investitions- und Entwicklungsgesellschaft of N$920 million and N$250 million, respectively.

Subsidiary performance

Bank Windhoek's net profit after tax amounted to N$762.9 million (June 2015: N$655.6 million), an increase of 16.4%.

CAM and CUTM's performance for 2016 was in line with their combined targets, delivering a 19.3% increase in profit after tax. The asset management business is doing well in its main market activities, while the institutional business came under pressure. Focus is on growing market share in the institutional market while maintaining our healthy 27% market share in the Namibian Unit Trust market.

WIB continues to grow from a small base, despite a challenging year in which income continued to be affected due to the negative regulatory impact on fee structures. The business has responded by adapting its business model, refining customer segmentation and following a more targeted approach. WIB recorded a profit after tax of N$6.0 million (June 2015: N$5.8 million), a 4.3% increase on the previous year.

Namib Bou increased its profit after tax to N$8.5 million. The development at Ondangwa has been scoped over seven phases, with the second phase set for completion this year. Phase two will deliver 155 houses, while the next phase, where servicing is currently being implemented, will entail development of approximately 250 houses. Phase one delivered 128 houses by the end of 2014.

Capricorn Group's associates, Santam Namibia and Sanlam Namibia Holdings, delivered a combined contribution of 10.7% (June 2015: 11.6%) of group profit after tax. Santam delivered very strong results with low claims cost. Sanlam had a more challenging year with the entry-level business not performing to expectations. As mentioned in the chairman's report, we are identifying synergies and opportunities to create further value through the relationship.

Dividends and policy

A final dividend of 36 cents per ordinary share was declared on 10 August 2016 for the year ended 30 June 2016. Taking into account the interim dividend of 30 cents per share, this represents a total dividend of 66 cents per ordinary share for the year ended 30 June 2016 (2015: 53 cents per share). The group's dividend policy remains unchanged.

Outlook

The group is anticipating the challenging operating environment to persist with slower economic growth, inflationary pressures, stable interest rate cycle and a weakening currency. These indicators are likely to cause the Namibian consumer to experience financial pressures over the short to medium term.

We will continue to strive to improve the ease of doing business and the level of service to our customers. With a respected brand, good relationships, a prudent approach to credit and a strong capital adequacy position, the group remains focused on meeting the banking and financial services needs of Namibians.

Bank Windhoek is preparing for the phasing out of cheques by the end of 2017 as the Payment Association of Namibia drives the transition to full electronic-based payment methods. This is an example of an opportunity to use regulatory and supervisory imperatives to drive cost savings, improve transaction security and accelerate our adoption of new customer-centric business models.

We are cognisant of the fact that current economic challenges can lead to the deteriorating quality of our credit book. Although our track record in this regard remains sound, it will require more stringent evaluation and pricing in the next financial year.

Due to the nature of our business model, which is founded on relationships, we regard the current market difficulties as a phase in our journey with customers. Therefore, we manage our relationships with a long-term and relationship-orientated view, which we believe is the most sustainable way of continuing to create value for all stakeholders and becoming a catalyst of sustainable opportunities.

Thinus Prinsloo
Managing director

"It has been a privilege for me to be part of the leadership team of Capricorn Group – an esteemed and respected Namibian institution. Although I initially envisaged a much shorter lifespan for our relationship, I ended up with five rewarding years as part of an executive team that can be proud of what it has achieved.

I am handing over my responsibilities with confidence – my successors are capable and have already proven themselves to be outstanding in their own right. Their respective careers bear testimony to this. I wish the board, executive team and all employees in the group all the best for a new phase, starting now. Capricorn Group can only go from strength to strength in your hands and hearts". – Christo de Vries

06 HOW WE GOVERN OUR BUSINESS

GOVERNANCE AND LEADERSHIP

Capricorn Group and its subsidiaries are committed to the principles of sound corporate governance, which are characterised by discipline, transparency, independence, accountability, responsibility, fairness and social responsibility. By subscribing to these principles, the group believes that all stakeholders' interests are promoted, including the creation of long-term shareholder value.

The board and its committees are responsible for establishing effective leadership, ethical practices and ensuring the appropriate application of governance practices and principles contained in the NamCode, the Corporate Governance Code for Namibia. The board believes that, based on the structures, policies and practices established, the group substantially applies the principles contained in the NamCode.

The board establishes corporate governance through the BARC, which monitors the group's application of relevant corporate governance principles and reports any findings directly to the board.

Governance events for 2016

- The establishment of a group board sustainability and ethics committee to provide an independent and objective body to assist the board in ensuring that Capricorn Group remains a good corporate citizen through the implementation of a sustainability and ethics strategy and reporting framework.
- The separation of the previous group board nominations and remuneration committee into two committees, each with its own mandate and focus, thereby enabling Capricorn Group to fully adhere to the requirements of the NSX and NamCode.
- The release of the group's first integrated annual report.
- Eric Knouwds retired on 3 November 2015 after serving the group for almost 12 years.
- Gerhard Fourie was appointed as a non-executive director on 29 October 2015.
- Thinus Prinsloo was appointed as the managing director for Capricorn Group from 1 January 2016 and replaced Christo de Vries.

Board of directors

The board plays a pivotal role in the group's corporate governance system. An overriding principle with regard to the board's deliberations and approach to corporate governance is that of intellectual honesty.

The board, as constituted by the Companies Act, is governed by the board charter. The purpose of this charter is to regulate how business is to be conducted by the board in accordance with the principles of sound corporate governance. The charter also sets out the specific responsibilities to be discharged by the board members collectively and the individual roles expected from them.

Role of the board

An important role of the board is to define the purpose of the group (which is its strategic intent and objectives as a business enterprise) and its values, which constitute its organisational behaviour and the norms to achieve its purpose. Both the purpose and the values are considered to be clear, concise and achievable. The group's strategy is considered, agreed and evaluated annually, prior to the approval of the annual budget. Implementation is monitored at the board and executive meetings quarterly.

Read more about the purpose, strategy and values on page 2.

The board also ensures that procedures and practices are in place that protect the group's assets and reputation. Further responsibilities of the board include the establishment, review and monitoring of strategic objectives, approval of major acquisitions, disposals and capital expenditure and overseeing the group's systems of internal control, governance and risk management.

A schedule of matters reserved for the board's decision details key aspects of the group's affairs that the board does not delegate, including the approval of business plans and budgets, material expenditure and alterations to share capital.

Board leadership and composition

The board provides leadership and vision to the group in a way that enhances shareholder value and delivers long-term sustainable development and growth.

The board strives to balance the need to operate within regulatory and business practice requirements while at the same time promote sustainable, innovative products and operations.

There should be a clear division of responsibilities at the head of the group to ensure a balance of power and authority, such that no one individual has unfettered powers of decision-making. Based on this principle, the roles of the chairman and managing director do not vest in the same person.

Chairman and lead director

The board has elected Koos Brandt as non-executive chairman. He is not considered to be an independent non-executive director, but a key shareholder representative. The directors are of the view that his experience, leadership skills and his intimate knowledge of the business and the economy equip him best to lead the board and the group.

The board is of the opinion that the governance structures and processes in place provide adequate challenge, review and balance and mitigate against undue influence. Board decisions are robustly deliberated and consensus driven.

The board has appointed Frans du Toit as lead independent director.

Board composition

The composition, skills and competence of the board are considered adequate to lead the Capricorn Group.

The company has a unitary board, consisting of an appropriate mix of executive, non-executive and independent directors. The size of the board is dictated by the company's articles of association which requires a minimum of five directors. Currently, ten members constitute the board at group level, with one executive director and five independent non-executive directors.

The nominations committee, which includes the lead independent director, assessed the independence of the non-executive directors classified as independent and confirmed their continued classification as independent.

Read more about the board members in their profiles from page 64.

Board practices

Key board practices and activities focus on:

- Open and rigorous discussion
- Active participation
- Consensus in decision-making
- Independent thinking and alternate views
- Reliable and timely information

Board committees and attendance at meetings

The board annually approves the meeting programme. There are at least four board meetings per year. The board as a whole remains responsible for the operations of the group, but to assist in discharging its responsibilities, it delegates certain functions to committees established by the board.

All committees are properly constituted, chaired by a non-executive director and act within agreed, written terms of reference that meet best practice standards and have been authorised by the board.

CAPRICORN GROUP BOARD
Executive committee
Audit, risk and compliance committee (BARC)
HR committee
Remuneration committee
Nominations committee
Investment committee
Sustainability and ethics committee
IT committee

The key committees are:

Group board executive committee

The purpose of the committee is to coordinate and guide the execution of the group strategy as approved by the board and help align, coordinate and facilitate the management of the company's business in a proficient, timeous, quick, agile and proactive manner in order to achieve sustainable profitable growth and performance. The committee is responsible for the following key matters:

- Support of managing director
- Governance and business ethics
- Oversight and monitoring of business activities
- Making recommendations on board appointments to the group board nominations committee
- Making recommendations to the group board remuneration committee with regards to appointment, remuneration and benefits for executive positions
- Considering and, where appropriate, approving any significant outsourcing or appointment of key advisers or other third parties
- Diligently executing and performing all duties, tasks and responsibilities delegated to the committee by the board
- Consider instances of significant litigation by or against the group
- Consider significant regulatory matters and reports by regulators of the group

Group board audit, risk and compliance committee (BARC)

The key responsibilities and duties of the committee are summarised as follows:

- Financial control, accounting systems and reporting
- Combined assurance
- Finance function
- Internal audit and internal control
- Risk management, including IT Risk as referred by the IT committee
- Compliance function
- External audit
- Non-trading losses
- Asset and liability committee (ALCO)

The group CFO, head of risk, head of internal audit and external auditor attends all BARC meetings and they have unfettered access to the BARC chairman and the board.

Group board HR committee

The committee is responsible for the following key matters:

- Personnel policies
- Remuneration framework
- Appointment, benefits and remuneration of management
- Remuneration and benefits of non-management
- Retirement fund scheme
- Medical aid and group life benefits
- Performance management
- Employment equity
- Environmental health and safety

Group board remuneration committee

The committee is responsible for the following key matters:
- Remuneration policy
- Remuneration and fees for services as directors
- Talent management at executive level
- Remuneration of executive positions
- Incentive schemes

Group board nominations committee

The committee is responsible for the following key matters:
- Director nominations and related matters
- Director performance
- Director succession planning

Group board investment committee

The committee is responsible for the following key matters:
- Investment evaluations, approvals and recommendations of all prospective investments and disinvestments
- Monitoring of investments
- Measure and oversee equity investment portfolio
- Review investment methodologies

Group board sustainability and ethics committee

The committee is responsible for the following key matters:
- Group sustainability strategy and philosophy, good corporate citizenship and ethics
- Monitor social and economic development activities
- Monitor environment, health and public safety activities
- Monitor consumer relationships and public relations
- Monitor compliance with human rights conventions

Group board IT committee

The committee is chaired by Prof André Watkins, an independent external IT specialist.

The committee is responsible for the following key matters:
- Group IT strategy
- Group IT policy
- Operational policy guidelines
- Group IT reference architecture
- Group application portfolio
- Group IT organisational and governance structures
- IT risk management
- Strategic projects
- Significant outsourcing
- IT capital spend
- Adequacy of IT resources

Attendance at meetings

The attendance at meetings during the financial year was as follows:

Director	Category	Board of directors	Group board executive committee	Group board audit, risk and compliance committee	Group board HR committee	Group board remuneration committee	Group board nominations committee	Group board investment committee	Group board sustainability and ethics committee	Group board IT committee
	Meetings held:	7	10	6	5	4	4	3	1	4
JC Brandt	Non-executive chairman	Chair 5	Chair 9		Chair 3	3	Chair 3			
JJ Swanepoel	Non-executive vice-chairman	7	10	6		4	4	Chair 3		4
CP de Vries	Managing Director until 31 December 2015	4	9		5			3		3
KB Black	Independent non-executive	7			5		1			
FJ du Toit	Lead independent non-executive	7		Chair 6	4	Chair 4	4	2		
DG Fourie	Independent non-executive	4		3	2	2				
E Knouwds	Independent non-executive	2		3						
MJ Prinsloo	Managing director from 1 January 2016	6	10		5			3	1	4
EM Schimming-Chase	Independent non-executive	7								
G Nakazibwe-Sekandi	Non-executive	7	4		4		1		Chair 1	
JM Shaetonhodi	Non-executive	6								
MK Shikongo	Independent non-executive	6								

The board, the BARC and the board HR committee have conducted an appraisal of their respective performances by means of a self-evaluation questionnaire. This resulted in improvement actions, where appropriate. The results of the committee self-evaluations were reported to the board.

Board members are required to observe the requirements of section 242 of the Companies Act dealing with disclosures of interests and, where appropriate, board members should recuse themselves from discussions or decisions on matters of potential conflict, unless resolved otherwise by the chairman or by the remaining members of the board.

No conflicts of interests were noted or declared during the reporting period.

Board appointments

Procedures for appointments to the board are formal and transparent.

Nominations for appointment as members of the board are recommended by the group board nominations committee (Nomco). Nomco is chaired by Koos Brandt, the board chairman. Frans du Toit, the lead independent non-executive director is a member, and all members are non-executive.

Background and reference checks are performed before the nomination and appointment of new directors.

New board members hold office until the next annual general meeting at which time they retire and become available for re-election. Executive directors are engaged on employment contracts, subject to short-term notice periods, unless longer periods are approved by the board.

On appointment, all directors attend an induction programme aimed at deepening their understanding of the group and the business environment and markets in which the group operates. This includes background material, meetings with senior management and visits to the group's facilities.
All board members are expected to keep themselves abreast of changes and trends in the business and in the group's environment and markets. This includes changes and trends in the economic, political, social and legal landscape. Where appropriate, significant developments that impact the group and which the board needs to be aware of, are highlighted via the governance structures and process.

BOARD OF DIRECTORS

Jacobus Christiaan Brandt (73)

BA LLB
Non-executive chairman

Koos Brandt was appointed as chairman of the board of directors of Bank Windhoek on 1 April 1982. Koos is a founding member of Bank Windhoek. He has been chairman of Capricorn Group since its inception in 1996. He studied law at the University of Stellenbosch and practiced as a commercial lawyer for more than 30 years at Dr Weder, Kruger and Hartmann (now Dr Weder Kauta & Hoveka). He is a director of numerous companies in the CIH group, Namibia Strategic Investments, and Infocare Health Services. In 2013 he was appointed to the Presidential Economic Advisory Council of Namibia.

He was appointed to the Capricorn Group board in 1996.

Johan Swanepoel (56)

BCom (Hons) (Accounting), CA(SA); CA(Nam)
Non-executive vice chairman

Johan Swanepoel was appointed as managing director of Bank Windhoek and a director of Capricorn Group on 1 July 1999. In 2005 he took up the position of the group managing director of the CIH Group. Johan completed his BCom (Accounting) degree in 1979 at the Rand Afrikaans University (RAU) and obtained his BCom (Hons) degree in 1981. After joining Coopers & Lybrand (now PricewaterhouseCoopers) in 1980, he qualified as a chartered accountant in 1982. He was elected managing partner of the firm in Namibia in 1989. He is a director of a number of companies in the CIH group, Namibia Strategic Investments, Kuiseb Investments and Infocare Health Services.

He was appointed to the Capricorn Group board in 1999 and to the BARC in 2007.

Kephas Brian Black (61)

Executive Management Diploma (Stellenbosch)
Independent non-executive

Brian Black is the proprietor of the Airport Lodge, which he personally planned and developed. He is the managing director of Cernol Chemicals. Current and previous positions include national chairman of the Hospitality Association of Namibia, board member of the Namibian Employers Federation, founding board member of the Namibian Tourism Board, general manager: marketing and sales: TransNamib Holding Limited, executive director of Swachem Namibia (Pty) Ltd and the Swaco group of companies and member of the Labour Advisory Council. He is the chairman of AFS Group Namibia and the Namibia Manufacturers Association.

He was appointed to the Capricorn Group board in 2007.

Francois Jacobus du Toit (71)

BCom (Hons), CA(SA)
Lead independent non-executive

Frans du Toit retired as group executive director: finance of the Absa group in 2005. Before his banking career, he was a partner of a leading audit firm for 14 years. Frans was appointed as a director of Bank Windhoek in 1998 and is the chairman of the group's BARC, the bank's board lending committee and the Capricorn Group board remuneration committee.

He also serves as a member of the Capricorn Group board nominations committee.

He was appointed to the Capricorn Group board in 2013 and to the BARC in 1999.

Daniel Gerhardus Fourie (58)

BCom (Hons), CA(SA); CA(Nam)
Independent non-executive

Gerhard Fourie has 35 years' experience as a chartered accountant. He was a partner with Ernst & Young for 28 years until his retirement as Managing Partner of EY Namibia in June 2015. Gerhard has completed a postgraduate management development programme of the Business School of the University of Cape Town and an advanced leadership programme at the Gordon Institute of Business Science and is a member of the ICAN Council. Gerhard was appointed as an independent non-executive director of Bank Windhoek in October 2015 and is a member of the group's BARC, the bank's board credit committee and the Capricorn Group board remuneration committee.

He was appointed to the Capricorn Group board and BARC in 2015.

Marthinus Johannes Prinsloo (45)

BCompt (Hons), CA(SA)
Managing director

Thinus Prinsloo joined CIH in July 2011 and was appointed as managing director of Capricorn Group from 1 January 2016. Before joining the group, Thinus worked at Absa in South Africa where he held various positions, including Head of Integration. Prior to that, he worked as a business strategy consultant at IBM and PricewaterhouseCoopers (PwC). Thinus completed his BCompt (Hons) degree at the University of Free State in 1992 and during his career at PwC qualified as a chartered accountant in 1995, working in the audit division in South Africa and in the corporate finance (financial services) division in the UK. He returned to South Africa in 2002 when he joined the business consulting division of PwC. Thinus completed a number of executive programmes over the years at GIBS, the University of Cape Town Business School, and most recently the Oxford Advanced Management and Leadership Programme at Saïd Business School.

He was appointed to the board of Capricorn Group in 2013.

Esi Malaika Schimming-Chase (46)

LLB (Hons)
Independent non-executive

Esi Schimming-Chase obtained her LLB (Hons) degree from Coventry University, Coventry, England in 1992. She was admitted as a Barrister at law in England in 1994. From 1995 to 1997 she was a legal officer in the office of the Attorney General of Namibia. She held the position of senior manager: investment promotions at the Offshore Development Company (Pty) Ltd, engaged mainly in all activities involving the promotion of foreign investment in Export Processing Zones in Namibia. She completed her articles at Koep & Partners Attorneys at Law and was admitted as a legal practitioner of the High Court of Namibia, and from March 2003 to date she has been a practising advocate of the High Court of Namibia and member of the Society of Advocates of Namibia. She has lectured part time and acts as a judge of the High Court of Namibia from time to time.

She was appointed to the board of Capricorn Group in 2013.

John Mueneni Shaetonhodi (67)

B Admin, MA, MBA (Maastricht)
Non-executive

John Shaetonhodi is a founding director and current chairman of Nam-mic, the broad-based black economic empowerment partner of Capricorn Group. John's career included political responsibilities, being a Member of Parliament for seven years, Deputy-minister of Labour, President of the Mineworkers Union of Namibia from its formation in 1986 until 1995, President and Member of the National Executive Committee of the National Union of Namibian Workers as well as a number of executive and non-executive directorships.

He was the CEO of TransNamib Holdings Limited from 2001 to 2007.

He was appointed to the board of Capricorn Group in 2006.

Matheus Kristof Shikongo (66)

Diploma in Personnel Management – Marketing
Independent non-executive

Matheus Shikongo was elected Mayor of The City of Windhoek in 2000. During his working career, he has served on a number of boards which include, among others, the National Theatre of Namibia, the Namibia Broadcasting Corporation, Metropolitan Life Namibia, the Commercial Bank of Namibia, the Namibia Airports Company and Namibia Power Corporation. In addition to serving on the board of directors of a number of companies in the CIH group, he is a director of Oryx Properties, August 26 Logistics and a number of other companies.

He was appointed to the board of Capricorn Group in 2001.

Gida Nakazibwe-Sekandi (63)

LLB, PRISA
Non-executive

Gida Nakazibwe-Sekandi joined the banking industry in August 2000 when she was appointed as executive officer: marketing and corporate communication at Bank Windhoek. She has since then served in various other senior executive positions in the group. In 2008 she was appointed as executive director of Capricorn Investment Holdings Limited, the holding company of the Capricorn Group. In this role she was instrumental in the establishment of the group's professional shared services function and provided oversight for its service delivery strategy, coordination of multifunctional and intragroup strategic projects as well as professional development.

Gida holds a Bachelor of Law (LLB' 1976) degree from the University of Makerere, Uganda and a Diploma in Legal Practice awarded by the Legal Development Centre in Kampala, Uganda. She is an accredited public relations practitioner by the Public Relations Institute of South Africa (PRISA) and founder member of PRISA Namibia. Prior to joining the banking industry, she served as head of corporate affairs and communication at Rössing Uranium Limited, a member of the Rio Tinto Group.

She was appointed to the board of Capricorn Group in 2004.

Access to independent advice

The company secretary is available to provide assistance and information on governance and corporate administration to the directors as appropriate. The directors may also seek advice on such matters, or on other business-related matters, directly from independent professional advisors should they so wish. This is in addition to the advice provided by independent advisors to the committees of the board. No requests for external professional advice were received during the year.

The board has unrestricted access to the executive management team of the group to engage on and discuss any matters that they require additional information on or understanding of.

Systems of internal control

The group maintains systems of internal control over financial reporting and over the safeguarding of assets against unauthorised acquisition, use or disposition. These are designed to provide reasonable assurance to the group and each subsidiary's management and board of directors regarding the preparation of reliable published financial statements and safeguarding of the group's assets.

The systems include a documented organisational structure and division of responsibility, established policies and procedures, which are communicated throughout the group, and the proper training and development of its people.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable, and not absolute, assurance with respect to financial statement preparation and the safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances.

The group assesses its internal control systems on a continuous basis in relation to effective internal control over financial reporting. Based on its assessment, the group believes that, as at 30 June 2016, its systems of internal control over financial reporting and over safeguarding of assets against unauthorised acquisitions, use or disposition, were adequate.

Where appropriate CIH group policies are adopted after consideration by the board.

Combined assurance

The group gains assurance regarding the internal risk and control environment from various assurance stakeholders, the key ones being business management, risk and compliance functions, and an independent internal audit.

Risk management and compliance

The group has a structured, group-wide risk management and compliance governance structure, approved framework, and established process that is designed and monitored by the independent risk management function.

The group head of risk is responsible for the implementation and effectiveness of the risk management processes. The head of risk has access to the BARC chairman.

Read more about risk management and compliance from page 78.

The directors representing Capricorn Group on the boards of entities over which Capricorn Group does not have control, will seek assurance that significant risks pertaining to these entities are managed and any system of internal control is operating effectively.

Internal audit

The group internal audit function (GIA) is an independent and objective review and consulting function created to add value and improve systems of internal control across the group. GIA assists the group to achieve its objectives by systematically reviewing current processes, using a risk-based approach to establish the adequacy of design and effectiveness and appropriateness of controls, the risk management process, the management control process and the governance process.

GIA reports to the BARC and has unrestricted access to the BARC chairman.

With the support and oversight of BARC, GIA has been led by an acting head since January 2015 as part of a structured development programme, the effectiveness of which will be reviewed during the 2017 financial year. Ernst & Young act as co-source partner to GIA, supporting the acting head, providing technical support and resource capability, and reporting to BARC.

External auditor

The external audit policy, as approved by the BARC, governs the work performed by the external auditor, both from an audit and non-audit perspective.

The BARC approved the external auditor's terms of engagement, scope of work, as well as the 2016 annual audit strategy and agreed on the applicable levels of materiality. Based on written reports submitted, the committee reviewed, with the external auditor, the findings of their work and confirmed that all significant matters had been satisfactorily resolved.

The committee has also assessed the external auditor's independence and has concluded that the external auditor's independence was not impaired during the reporting period and up to the date of signing of the consolidated financial statements.

Non-audit services received and fees paid by the company during the financial year are as follows:

Advisory support in respect of reward and incentive structures: N$300,000

Attending committee meetings: N$41,725

Professional Services with regards to Anti-Money Laundering: N$45,000

First provisional tax review and other tax matters: N$128,535

Other: N$13,500

It is the external auditor's responsibility to report on whether the financial statements are fairly presented in all material respects in accordance with the applicable frameworks as adopted by the group, and their audit opinion is included in the consolidated annual financial statements on page 93.

Code of ethics and conduct

As part of its corporate governance practice and to encourage an environment where loyalty, integrity and trust prevails, all directors and employees are required to abide by the group's code of ethics.

The code includes the ethics programme. The ethical standards of the company have been maintained throughout the year. Any contraventions of the code of ethics and conduct are acted upon in accordance with clearly communicated principles. The results of the ethics assessment undertaken during the year were incorporated into the ethics risk and control framework.

Dealing in shares is governed by a policy that sets out practices including approval requirements, disclosure principles and closed period rules.

Stakeholder engagement

The group actively engages with key stakeholders such as shareholders, regulators, customers and employees.

Read more about stakeholder engagement from page 46.

REMUNERATION REPORT

Frans du Toit

In line with the global movement towards increased communication with regards to executive remuneration, we are pleased to present the annual remuneration report of the group.

We continue to ensure that our remuneration practices and policies adhere to global best practice and align executive interest strongly to those of our shareholders. PricewaterhouseCoopers annually reviews and advises Capricorn Group in this regard. Particular attention was paid to the setting of the performance conditions for the long-term incentives and, consistent with the previous year, we have taken the decision to disclose the performance conditions in this report. We are confident that the targets which we have set for our performance conditions will stretch management, requiring strong company performance to unlock rewards for participants.

Consistent with 2015, we strive for appropriate transparency of our executive remuneration policies and practices and again present a two-part report. This two-part report contains our forward-looking remuneration policy in the first section and the actual implementation of our remuneration policy for the year under review in the second section, allowing shareholders to observe the manner in which our stated policies translate into actual outcomes for senior management and executives.

Part one: remuneration philosophy and policy

The group's remuneration philosophy is to ensure that all employees are rewarded fairly and appropriately for their contribution. In setting remuneration levels, the human resources and remuneration committees take appropriate market benchmarks into account, while ensuring sufficient emphasis are placed on pay for performance. This approach helps to attract, engage, retain and motivate key employees while ensuring their behaviour remains consistent with Capricorn Group's values. Our guiding principles for managing remuneration are as follows:

- Total rewards mindset – Reward is viewed in a holistic manner comprising a range of monetary (fixed and variable) and non-monetary components.
- Performance differentiation – There is strong differentiation based on performance, particularly for senior, specialist and leadership roles where line of sight to strategic imperatives is evident.
- Manager discretion – Management discretion is central to Capricorn Group's remuneration philosophy and is based on the requirement that reward must always be based on merit.

- Variable pay component – The variable pay component of total reward increases with seniority (organisational level), as the ability to impact business results increases. This is reflected in the quantum of the opportunities offered by the short and long-term incentives for more senior levels compared to junior employees.
- Performance aligned with strategy – Performance is the cornerstone of reward practices and there is clear differentiation between performers and non-performers. The reward consequences for individual employees are, as far as possible, linked to and influenced by the interests of the shareholders, the performance of the company as a whole and the individual employee contribution.
- Risk containment – Reward plans are structured to mitigate against excessive risk-taking.
- Consistency – The reward philosophy strives to be both consistent and transparent. Benchmarking is performed annually using consistent and recognised methodologies. The differential market value of various skill groups and roles is reflected in pay practices.
- Attraction and retention – The focus is on competitive remuneration practices that attract, engage and retain talent to deliver on the business strategy.

The group board remuneration committee

Membership

The group board remuneration committee consists of three non-executive directors and is chaired by an independent director. At 30 June 2016, the committee comprised the following members:

- F J du Toit, independent non-executive chairman
- J C Brandt, non-executive director;
- J J Swanepoel, non-executive director; and
- D G Fourie, independent non-executive director.

Executive directors attend committee meetings by invitation, but are requested to recuse themselves when matters are discussed that concerns them. Ms A Coertzen acts as secretary to the committee. During the year under review, the committee received advice from PricewaterhouseCoopers South Africa as independent advisors.

Terms of reference

The committee operates according to a terms of reference that is approved by the board of directors and which clearly sets out the scope of its responsibilities.

The committee is responsible for the following key matters:

- Remuneration policy
- Remuneration and fees for services

The committee confirms that it has discharged the functions and complied with its terms of reference for the year ended 30 June 2016.

Key activities and recommendations

The committee held four meetings during the year under review.

The key activities and recommendations of the committee with regard to remuneration during 2016 included the:

- Benchmarking of executive directors' and executive management's total reward;
- Benchmarking of non-executive directors' fees and the approval of fees for recommendation to the board and shareholders;
- Consideration of the outcome of the annual performance assessment of the committee;
- Consideration of annual total guaranteed pay increases; and
- Approval of short- and long-term incentive allocations to management.

Elements of pay

The table below sets out an overview of the elements of pay applicable to Capricorn Group employees:

	Element	Detail
Fixed remuneration and benefits	Basic salary	The fixed element of remuneration is referred to as basic salary.
	Benefits	Benefits include membership of a pension fund and medical aid, to which contributions are made by both the employee and the company, and may also include mortgage bond interest subsidies as well as housing, car, entertainment or other allowances, depending on the job level of the employee. Company contributions are calculated as part of employee's costs to company.
Variable remuneration	Short-term incentive plan (STI)	The group operates a bonus pool short-term incentive plan, which all employees are eligible to participate in. The bonus pool is funded from the consolidated group operating profit, and is varied according to the company's performance during the year, as more fully described in the STI section below.
	Long-term incentives (LTI)	LTI awards take the form of share appreciation rights, conditional shares or a combination of both. Most awards are subject to vesting conditions relating to company performance, measured over a three-year performance period. In instances where retention is required, conditional shares are awarded which are subject to a vesting condition of continued tenure within the group. In addition, employees from a specified grade level may participate in the group's share purchase scheme to purchase Capricorn Group shares at the volume-weighted average price over the previous 12 months with the option of an interest-free loan. Full ownership of these shares vest after three to five years.

Short-term incentives (STI)

The company has introduced a short-term incentive plan which aligns with best market practice within the industry and operates in the same manner for all employees within the group. A bonus pool from which all STIs are paid, is calculated based on consolidated group profit.

The percentage of profit which forms the pool is modified according to company performance during the year, relative to profit before tax and return on equity targets which are set yearly in advance. Where company performance is below the threshold level, no bonus pool will accrue for senior management and executives.

Each individual's short-term incentive is then calculated based on individual performance and job grade, informed by the total pool. Where an employee's performance is assessed to be unacceptable, that employee will not qualify for any STI payment during the year.

The remuneration committee approves the individual performance scores for the executive management committee.

The maximum performance incentive remuneration of any employee is limited to twice the on-target incentive.

Long-term incentives (LTI)

Share appreciation rights plan (SAR)

Terms	Detail
1. Purpose	To attract, retain and reward selected employees who are able to contribute to the trade of the group and to stimulate the personal involvement of these employees, encouraging their continued service. The SAR serves as a leveraged incentive to employees to promote and align the interests of employees with the shareholders of the company.
2. Operation	Participants receive conditional share appreciation rights which vest after three years, subject to the satisfaction of the performance condition, and continued employment of the participant. After vesting, the SAR may be exercised until the period ending five years after the award date.
3. Participants	Executive directors, executive managers and selected members of senior and middle management.
4. Performance period	Three years.
5. Plan limits	An aggregate limit applies between the SAR and the conditional share plan (CSP) and existing ownership trust, being 7.5% of the issued shares of the company. An individual participant may not receive awards in excess of 10% of the overall company limit at any one time.
6. Performance conditions	The performance condition applicable to the September 2013 to 2015 awards is: Achievement of budgeted cumulative profit after tax ("PAT") over the performance period.

Conditional share plan (CSP)

Terms	Detail
1. Purpose	To attract, retain and reward selected employees who are able to contribute to the trade of the group and to stimulate the personal involvement of these employees, encouraging their continued service. Under the CSP, participants receive conditional shares that vest after three years, subject to the satisfaction of the performance condition over the performance period.
2. Operation	In certain cases, where a retention risk exists, conditional shares that vests after three years and are subject to continued employment of the participant by the group but are not subject to performance conditions, may be awarded.
3. Participants	Executive directors, executive managers and selected members of senior and middle management.
4. Performance period	Three years.
5. Plan limits	An aggregate limit applies between the SAR and the CSP and existing ownership trust, being 7.5% of the issued shares of the company. An individual participant may not receive awards in excess of 10% of overall company limit at any one time.
6. Performance conditions	The performance condition applicable to the September 2013 to 2015 awards is: Achievement of budgeted cumulative PAT over the performance period.

Non-executive directors' fees

The non-executive directors do not participate in any short or long-term incentives and do not have contracts of employment with the company. Their fees are reviewed by the company and submitted to shareholders for approval on an annual basis.

Non-executive director fees reflect the directors' roles and membership of the board and its committees.

The resolution relating to non-executive director fees for the 2017 financial year can be found on page 222 of the notice of the AGM.

Non-binding advisory vote

At the forthcoming AGM, shareholders will be requested to cast a non-binding advisory vote on the remuneration policy contained in part 1 of this report.

Part two: remuneration paid

Increases to guaranteed pay (group remuneration policy)

Annual remuneration reviews are effective on 1 September and increases are not guaranteed. During this process, remuneration structures and pay ranges are evaluated and adjusted where necessary, based on each individual's salary compared to the salary scales, considering the:

- Employee's performance review;
- Formal salary survey conducted to determine local and regional pay practices; and
- Adjustment of salary scales to reflect any market movement.

During the year under review, an average increase of 7.1% was awarded to the executive directors and 7.1% to executive managers.

Number of share appreciation rights and conditional shares awarded

The number of share appreciation rights and conditional shares awarded to executive directors are disclosed in note 40.11.4 of the 30 June 2016 consolidated annual financial statements.

The remuneration committee awarded the first tranche in September 2013, a second tranche in September 2014 and further tranches in September 2015 as follows:

- Share appreciation rights
  318,600 (September 2014: 455,875)
- Conditional shares
  369,308 (September 2014: 478,780)

Number of shares acquired under the share purchase scheme

The number of shares acquired by employees in the group's share purchase scheme in September 2015 was as follows:

- Share purchase scheme
  1,041,268 (September 2014: 480,900)

Directors' remuneration

Executive directors' remuneration

The analysis of the remuneration of executive directors for the 2016 year is disclosed in note 40.11.3 of the 30 June 2016 consolidated annual financial statements.

Non-executive director fees

The analysis of the non-executive director fees for the 2016 year is disclosed in note 40.11.2 of the 30 June 2016 consolidated annual financial statements.

Frans du Toit
Chairman of the group board remuneration committee

RISK AND COMPLIANCE REPORT

Capricorn Group is exposed to a variety of risks inherent to the nature of its business operations on an ongoing basis. The main risk categories have been defined as principal risks and are managed according to a risk management framework. The framework consists of standard core risk management processes and a well-established governance and policy framework. At a strategic level, risk management objectives are to:

- optimise efficiency through the effective use of risk resources in the group;
- support and enable the achievement of strategic objectives;
- ensure accountability for risk management;
- manage expected risk exposure within an acceptable risk appetite;
- ensure that risks are understood and managed; and
- maintain standard risk management principles and processes.

Effective risk management and control are essential to ensure that the group grows profits sustainably. The group maintains an effective risk, internal control and assurance framework based on the risk practices of COSO* and Basel III, as set out below.

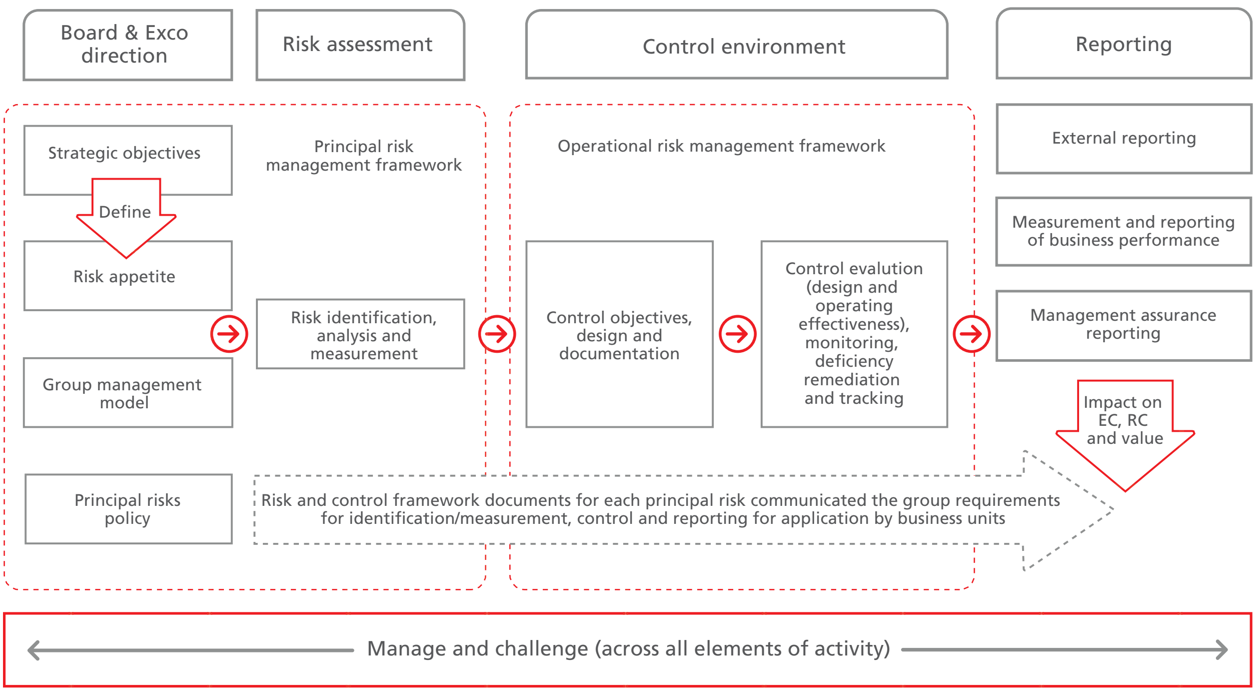
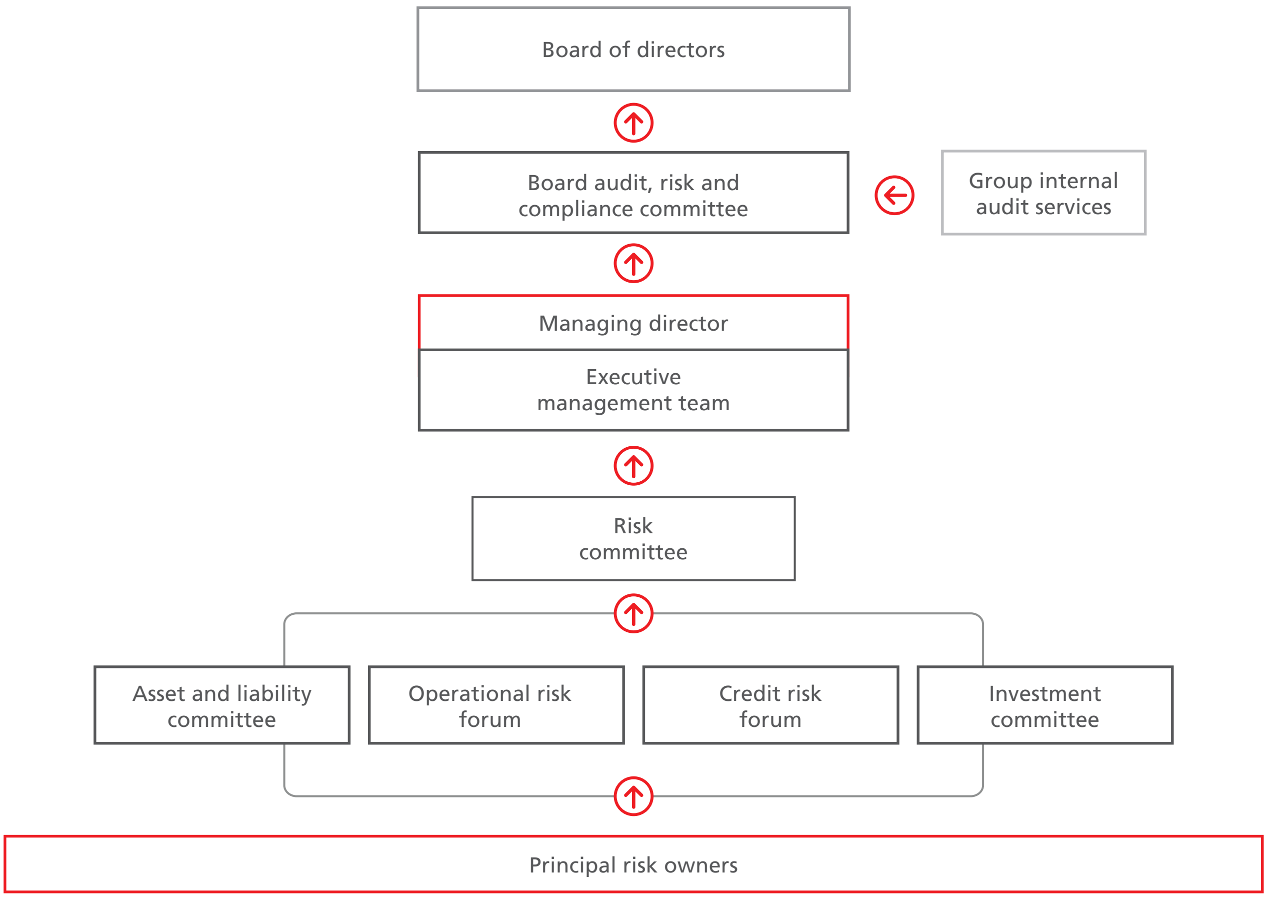


Figure 1:
High-level organisation and flow of the group risk internal control and assurance framework (GRICAF)
Economic capital (EC), regulatory capital (RC)
**Committee of sponsoring organisations of the treadway commission*

The group adopts these practices for the different group entities as suitable and adequate given the size and complexity of each entity. The board has oversight of the risk profile and framework through the board and BARC as set out in the governance structure below. Accountability for each of the 14 principal risks vests with an accountable executive who has the responsibility to ensure that the design of the specific risk and control self-assessments (RCSAs) is appropriate and effective. The principal risks relate to:

1. credit
2. market
3. liquidity
4. operations
5. capital
6. strategy
7. compliance
8. customers (a newly added principal risk)
9. technology
10. people
11. finance and tax
12. legal
13. financial crime
14. reputation

The oversight structure of the banking subsidiary is reflected below:



Overview of 2016

- The macroeconomic environment showed a slow but steady deterioration during the year putting upward pressure on both corporate and individual customers. The main macroeconomic variables that increased are:
  - prime interest rates increasing from 10.25% to 10.75% in the last 12 months;
  - inflation increasing from 3.0% to 6.7% over the past 12 months;
  - the USD/NAD exchange rate deteriorating by approximately 14% in the last year;
  - the total central government debt increasing by approximately 30% year-on-year; and
  - private sector credit slowing to around 12% from 14.7% a year ago.
- Credit growth softened during the year, with advances growing by 12.6% in the 2016 financial year compared to 16.7% recorded the previous financial year.
- Credit risk remains well managed and within acceptable limits although the impact of the deterioration in the economic environment is evident in a slow increase in arrears and non-performing loans (NPLs). Non-performing loans as a percentage of gross loans and advances increased from 1.09% to 1.32%, however still well within generally accepted banking norms.
- Increases in interest rates and volatility in the foreign currency markets placed additional focus on market risk, which remained within appetite and tolerance.
- The Namibian Money Market was impacted by the decrease in government spending and the timing of the disbursements to the local authorities and parastatals. The overall liquidity position for the group remained stable, well managed and remained within regulatory guidelines.
- The group remained well capitalised with Bank Windhoek remaining within the prescribed capital limits for banks.
- Total net operational risk and financial crime losses increased to N$19.0 million from N$13.6 million in 2015, with financial crime losses accounting for 53.6% of the total.
- The group remains compliant with laws and regulations with no financial penalties, regulatory censure or reprimands imposed on the group or any of its subsidiaries.

Risk addressed	Priorities for 2016	Progress made in 2016	Priorities for 2017
Credit Risk	Managing credit risk in a deteriorating macroeconomic environment and an increasing interest rate cycle.	Although there was a deterioration in the credit risk environment, the credit risk remained within the board-approved appetite and thresholds.	Managing arrears proactively and ensuring sustainable credit extension. Implement necessary Basel III measures for managing credit risk.
Market Risk	Managing basis risk in an increasing interest rate cycle.	The fact that South Africa and Namibia's interest rate spread narrowed, exposed the bank to basis risk. This was, however, negligible for the bank. Ongoing analyses, stress testing and hedging will assist in the mitigation of basis risk. The book is structured optimally for the increasing interest rate cycle.	

Risk addressed	Priorities for 2016	Progress made in 2016	Priorities for 2017
Liquidity Risk	Managing liquidity requirements in a stressed Namibian market.	Liquidity requirements were proactively managed to ensure sufficient liquidity for the bank even in a market where liquidity was under pressure. The group remained within the regulatory liquidity requirements.	Increase stable deposits as part of Basel III requirements. Further enhancements to be made in terms of forward looking capabilities for stress testing and scenario analyses with the focus on Basel III requirements.
Operational Risk	Contain and prevent operational risk losses.	The number of loss events decreased significantly from previous years. However, the average loss per incident increased. A number of proactive measures were introduced in the electronic channel environment, the most important being the introduction of Europay, MasterCard and Visa (EMV) compliant chip cards.	Further enhancement of proactive fraud detection by introducing an electronic proactive fraud monitoring capability. There will also be an increased focus on the recovery of fraud losses and regular fraud and compliance awareness campaigns.
Capital Risk	Maintain buffer above minimum regulatory capital requirements.	Group remains well capitalised.	Focus on additional capital requirements for Basel III implementation.
Investment Risk	Managing portfolio growth in volatile markets.	Overall portfolio growth remained stable in the year.	Refine fund matrices and further enhancements on process that confirms compliance on credit ratings.

Capital Risk

Capital risk is the risk that the group is unable to meet its capital requirements and 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.

Capital management principles

- To comply with the capital requirements set by the Bank of Namibia.
- Efficient capital management delivering on the group's return on capital targets to ensure share-holders' expectations are met while making adequate capital available to support business growth.
- Capricorn Group's long-term strategy is to build sustainable stakeholder value which requires ensuring that Bank Windhoek's capital levels are sufficient for achieving this.

Capital management for Capricorn Group

The group's regulatory (qualifying) capital is divided into three tiers:

- Tier 1 capital: share capital (net of any book values of the treasury shares, if any), non-controlling interest arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital;
- Tier 2 capital: qualifying subordinated loan capital and collective impairment allowances; and
- Tier 3 capital: includes short-term subordinated debt that may be used only to cover a portion of the banking institution's capital charges for market risk.

The Bank of Namibia requires each bank or banking group to maintain capital adequacy ratios. Capricorn Group has continuously complied with the following capital ratios:

- Tier 1 capital to total assets;
- Tier 1 capital to risk-weighted assets; and
- Total regulatory capital to risk-weighted assets.

The Bank of Namibia has adopted the Standardised Approach to Basel II, with risk-weighted assets being measured for three risk types, namely operational risk, market risk and credit risk.

The adequacy of the capital for the risks that Bank Windhoek faces is tested annually by means of a detailed internal capital adequacy assessment process (ICAAP) in which the expected and unexpected loss areas across all the principal risks are determined using various modelling and scenario techniques.

Priorities for next year

Basel III implementation: Basel III will likely increase the capital buffer that should be held for the bank. Current calculations show that the capital currently held by the group is sufficient for Basel III requirements.

Market Risk

Market risk is the exposure to adverse changes in the price or value of an instrument traded or held as an investment. Where market risk is a factor, and especially in volatile markets, the practice of marking to market on a regular basis is an important discipline.

From the above the following detailed risks 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.

Basis risk: the change in price basis or spread between two rates or indices changes, e.g. the price of an asset does not change in the same manner as a change in a liability, or the spread between the funding and lending rate changes.

		June comparison		
	Year-on-Year Δ	**2016**	**2015**	**2014**
Calibrated risk-weighted amount for market risk (N$'000)	>100%	481,527	235,057	420,895
Banking book annual earnings at risk for a 2% shock (% of group net interest income)	(16%)	<11%	<13%	<16%

Market risks were actively monitored with emphasis on the impact of an increasing interest rate cycle. The management of market risk will remain a key focus area given the probability of further increasing interest rates, increased volatility in foreign currency markets and deterioration of the macroeconomic environment.

Market risk management process

Market risk is managed by closely monitoring the limits as set out in the market risk framework. Models and stress tests are used to gain an increased understanding of the market risk environment. In addition, foreign exchange positions are managed via stop losses orders and closing or hedging out unwanted exposure via derivatives or in the spot market.

Priorities for the next year

- Further improve the forward looking, proactive approach to market risk, with the elevated use of modelling to do forecasting and analyses.
- Refine the optimised use of balance sheet structure as a risk mitigation tool.
- Review the funds transfer pricing (FTP) methodology to achieve asset and liability management (ALM) objectives for improving interest rate margins and funding mix.

Liquidity Risk

Liquidity risk is the risk that the group will be unable to meet its obligations as they fall due. It is also the risk that the group may not be able to liquidate assets quickly 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.

Against the backdrop of continuing challenges in the macroeconomic environment, the overall liquidity position remained well managed and met regulatory guidelines. However, the Namibian Money Market liquidity position decreased by 37% year-on-year from N$4 billion to N$2.5 billion.

Low interest rates have incentivised borrowing and disincentivised savings over the past few years. This trend is likely to be reversed as interest rates increase and the effects are expected to lag movements in interest rates.

Liquidity risk management process

Liquidity risk is monitored and managed by means of a set of liquidity indicators and triggers that serve as early warning signs for effectively managing liquidity. The overall liquidity position is monitored and managed in conjunction with the funding action plan to ensure sound liquidity in the group.

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; and
- relationships with depositors.

Priorities for the next year

- Manage the funding and high-quality liquid asset position in line with the board-approved liquidity risk framework and Bank of Namibia regulations.
- Improve the forward-looking approach for the management of liquidity and funding as well as expanding stress testing and scenario analyses.
- Diversifying and expanding the funding base.

Credit Risk

Credit risk is expressed as the risk that a borrower or counterparty will fail to meet an obligation when it falls due, and is inherent to the group's business activities. The realisation of credit risk can cause a considerable loss in revenue as well as a decline in the total asset value when assets are categorised as non-performing.

		June comparison		
	Year-on-Year Δ	**2016**	**2015**	**2014**
Specific provisions (N$'000)	15.3%	147,829	128,174	86,887
Impairments (N$'000)	4.2%	60,779	58,305	29,115

- Gross advances grew by 12.6% to N$26.8 billion compared to N$23.8 billion recorded the previous financial year.
- NPLs as a % of gross loans and advances increased from 1.09% to 1.32%.
- Impairments remained stable, increasing by 4.2% to N$60.8 million (2015: N$58.3 million).

Credit risk management process

Credit risk is managed by monitoring the quality and concentration risk of the overall portfolio on an ongoing basis. Models and stress testing are used to enhance the understanding of the field and improve the management of the risks. Increased focus will be placed on the implementation of the ESMS system and the use thereof in the loan application process to ensure responsible sustainable lending.

Priorities for the next year

- Continue investigating, monitoring and forecasting the potential impacts of trends in the macroeconomic environment to proactively adjust lending practices.
- The ongoing drought and an imminent water crisis is likely to increase risks of arrears and defaults for the bank. The drought is expected to continue having an impact on the farming, building and construction, and transport sectors.
- South Africa's potential downgrade to junk status remains a risk which is closely monitored and analysed. Should this happen there is likely to be an increase in interest rates and exchange rates which will negatively affect arrears and NPLs.
- Monitor and manage NPLs.
- Improve scenario development and forward-looking credit risk analyses.

Operational Risk

Operational risk is the risk of the group suffering financial losses directly or indirectly due to failed internal processes or systems, human error or from external events. This includes the following non-financial principal risks:

- Strategic risk – The risk that the achievement of business objectives will be adversely affected by defective strategic planning. Strategic objectives that are not implemented are an example of this risk.
- Compliance risk – The risk of failure to comply with applicable rules and regulations, and in so doing, exposing the group to penalties and reputation damage. Penalties received or due for non-compliance is an example of this risk.
- Operations risk – The risk of failure to deliver the intended outcome with respect to customers, products and services, facilities, data, processes, business continuity, physical cash management, payment management and change execution and delivery. Data entry, maintenance or loading errors that result in data quality issues, is an example of this risk.
- Customer risk – The risk that customers' needs in terms of products and services offered are not met. Poor customer service is an example of this risk.
- Technology risk – The risk that the strategic technology investment is not aligned to the group's vision or business strategy, or catastrophic failure of technology to deliver secure IT services which provide critical business services. System break-downs or systems being offline are an example of this risk.
- People risk – The risk of failure to achieve the group's business objectives through problems which may arise from people-related issues. Misuse of confidential information is an example of this risk.
- Finance and tax risk – The risk of failure to monitor and report on statutory financial requirements in line with the group's requirements. The restatement of the annual financial statements is an example of this risk.
- Legal risk – The risk of exposure due to a failure to conduct business in accordance with laws or contractual obligations. Planned and potential litigation is an example of this risk.
- Financial crime risk – The risk of fraud or dishonesty, misconduct or misuse of information relating to a financial market, handling the proceeds of crime or the financing of 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. Phishing attacks are an example of this risk.
- Reputation risk – The risk of failure to understand, identify or manage events that impact negatively on the group's reputation. Negative publicity is an example of this risk.

		June comparison		
	Year-on-Year Δ	2016	2015	2014
Total losses as a % of gross income (%)	(4.8%)	0.40%	0.42%	0.23%
Total operational risk losses (N$'000)	15.5%	11,900	10,301	4,548

Operational risk management framework

Operational risk is managed through the operational risk management framework. Within the framework qualitative and quantitative tools are applied to identify and assess operational risks, as well as managing the mitigation of identified control weaknesses. The prime responsibility for the management of operational risk rests with the management of business units where the risk arises.

The operational risk management framework establishes the operational infrastructure that enables Principal Risk Owners (PROs) to collect, interpret and act on risk information, thereby discharging their responsibilities in terms of the GRICAF. The components of the operational risk management framework are:

Risk and control self-assessments (RCSAs)

As part of the systems of control developed for every principal risk, a number of key internal controls are identified and documented. The aim of the RCSA process is for management to assess the design and operation of these controls to determine if they are functioning effectively or not and to perform semi-annual risk attestations. For an internal control to be effective, evidence must exist that supports this conclusion.

Risk capacity, appetite and tolerance (RCAT) thresholds

The RCAT statement reflects the group's capacity, appetite and tolerance thresholds for risk. The RCAT collectively refers to qualitative and quantitative statements. Quantitative statements include thresholds which, if breached, trigger a change in status that attracts a higher level of monitoring and management action. The capacity and appetite statements are approved annually by the board and are regularly reviewed and reported to the risk committee, executive management team and the BARC.

Key risk indicators (KRIs)

KRIs are quantitative measurements specifically used for the following:

- Measurement of risk exposure (via the RCAT statement and thresholds); and
- Assessing the effectiveness of internal controls.

A KRI is rated in terms of threshold levels approved as part of the risk frameworks. RCSAs and KRIs complement each other and are not assessed in isolation.

Risk and loss event reporting

Losses are included in monthly risk reports through the collection of information from business units. Although loss events are the result of historical events, an analysis of repeating losses and trends allows for the identification of potential expected or unexpected future losses.

Risk issue remediation and closure process

The process consists of recording, tracking and reporting on the group's performance in terms of resolving risk issues raised by risk service providers such as internal and external audit, management assurance services, the Bank of Namibia and other regulators.

Financial crime

The group makes use of a full time forensic department that includes a team of qualified forensic specialists to monitor, investigate and report on financial crime.

Compliance risk management

As a leading financial services group, the group faces complex challenges to ensure that its activities comply with local legislation, regulations and supervisory requirements and the relevant international standards and requirements.

The compliance function identifies, assesses, advises, monitors and reports on the compliance risk of the group and its subsidiaries, as well as legal risk in terms of the potential impact of changes in laws and regulations. The management of compliance risk forms part of the overall risk management framework of the group.

The compliance function consists of general compliance and money laundering compliance and the methodology followed by the compliance function has been developed and benchmarked against industry and international best practice.

Key activities undertaken by general compliance

The key activities undertaken by general compliance to support the directors, executive officers, management and employees in discharging the relevant compliance responsibilities include the following:

- Compliance risk management framework – The framework sets out the minimum requirements for the management and control of compliance risk within the group.
- Compliance risk identification, assessment and prioritisation – Compliance risks, once assessed, are consolidated into a compliance risk profile. Given that the group is a dynamic corporate entity and that the regulatory landscape is evolving and becoming increasingly stringent, the regulatory risk profile is reviewed and updated at least annually or as and when new regulatory requirements are introduced, to ensure any possible risk of non-compliance with applicable laws, regulations and supervisory requirements are addressed.
- Compliance risk management plans (CRMPs) – The CRMPs serve as a management tool, outlining the compliance risks that the business units or support functions are exposed to and controls that are implemented to manage and mitigate those risks. These plans have been developed and are updated on an annual basis or as and when compliance risk changes or when new regulation or legislation is introduced.
- Compliance risk monitoring – During the financial year there were no financial penalties, regulatory censure or public reprimands imposed on Capricorn Group or any of its subsidiaries.
- Compliance risk reporting – Compliance reports are submitted to governance committees attended by directors, executive officers and management. Compliance awareness is also an important component of compliance risk reporting.

Key activities undertaken by money laundering compliance

The key activities undertaken by money laundering compliance to support the directors, executive officers, management and employees in discharging their responsibilities in respect of the risk of money laundering and terrorist financing include the following:

- Governance and oversight – Money laundering compliance sets policies and provides guidance and training relating to anti-money laundering and anti-terrorist financing regulatory requirements.
- Regulatory or policy breaches – Money laundering compliance reports any breaches to the various governance forums and, if required, to the regulators.
- Automated money laundering prevention solution – The group's automated money laundering prevention solution provides a mechanism to efficiently counter money laundering risks and events.
- Sanctions screening – The group has key controls and procedures in place to conduct sanctions screening and minimum screening standards are maintained by the head of money laundering compliance.
- Training – The group has developed and maintains ongoing training programmes for employees on money laundering, combating of terrorist financing activities and sanctions laws.

Factors that influenced operational risk

- The increased frequency and sophistication of cyberrelated fraud were addressed with the introduction of EMV compliant chip cards, improved proactive fraud monitoring and increased fraud awareness.
- Human error and non-compliance with policies and procedures were addressed with increased compliance awareness.

Priorities for the next year

- Further improvement of root cause and trend analyses with regards to operational risk losses to mitigate the actual cause of losses.
- Enhanced risk assessment of new products or material changes to existing products.
- Ongoing fraud and risk event awareness to assist employees in the proactive identification and reporting of potential fraudulent activities, as well as placing focus on the importance of following procedures.
- Effective reporting of the results of compliance risk monitoring with the aim of ensuring the quick and effective resolution of regulatory issues.
- Incorporating ethics monitoring into the operational risk process with the data to form part of compliance management.
- Improving the proactive awareness and understanding of potential regulatory and policy changes across Southern Africa and managing changes to minimise customer impact.
- Decrease internal fraud through improved monitoring of compliance with policies and procedures and strengthening of the control environment through improved root cause analyses.

Investment Risk

Investment risk can be described as risk of losses relative to the expected return of a particular investment. Investment risk for the group mainly lies with CAM.

Overview for 2016

- The period proved to be a very challenging one in financial markets as volatility and uncertainty have increased substantially.
- One of the main risk factors that arose globally was the uncertainty regarding the actions of the Federal Reserve (the Fed) in the United States of America. The Fed hiked interest rates in December 2015 and this indicated a change in its policy stance. However, expectations of the future path of interest rates are difficult to predict.
- The slowdown of the Chinese economy posed another challenge as it is accompanied by volatile financial markets and decreased commodity prices.
- Closer to home, the central banks of South Africa, as well as Namibia, raised interest rates in an effort to fight inflationary pressure.
- The Bank of Namibia has expressed concern over the fast pace of credit extension, which required policy intervention to slow its growth rate.
- The challenging times can be seen in some returns delivered in the local and international equity, resource and bond markets.

2016 commitments	Progress in 2016	Priorities for 2017
The portfolio management team's goal was to refine the system of checks and controls as contained in the fund matrices (the fund matrix contains all the regulatory and mandate compliance requirements for each fund).	The matrix for each mandate was reviewed and refined. The compliance process for adhering to the matrices was reviewed and improved. Compliance is checked by the CAM credit and compliance committee on a monthly basis.	The fund matrices will be further reviewed and refined. The credit and compliance committee will sign off on newly drafted and improved matrices.
Liquidity risk is managed by an internal credit rating process. This process takes into account the credit quality as well as liquidity of each instrument. Each fund matrix determines the maximum exposure that may be maintained to any counterparty.	The credit rating process was reviewed, expanded and affirmed. Each security included in the funds is subject to this credit rating as well as overall limits. There were no instances of default, nor any liquidity stress.	Continued compliance with the limits imposed by the credit rating process will be ensured. These limits together with dealer limits and day-to-day processes will be incorporated into a company-wide internal business process.
The portfolio management team implemented risk measures for each of the mandates under management.	Risk measures were selected for the portfolio groupings that can be managed with similar risk measures.	Risk measures will be incorporated into the fund matrix for each fund, e.g. trading errors and counterparty limits.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS 07

CHAPTER 07

Statement of responsibility by the board of directors
for the year ended 30 June 2016

The directors are responsible for the preparation, integrity and objectivity of the financial statements that fairly present the state of affairs of the company and the group at the end of the financial year, the profit and cash flow for the year and other information contained in this report.

To enable the directors to meet these responsibilities:
- the board and management set standards and management implements systems of internal control, accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties;
- the group's internal audit function, which operates unimpeded and independently from operational management, and has unrestricted access to the various group board audit, risk and compliance committees, appraises, evaluates and, when necessary, recommends improvements in the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business;
- the board audit, risk and compliance committees of the group subsidiaries, together with the external and internal auditors, play an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review.

The group consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis.

The financial statements presented on pages 94 to 220 have been prepared in accordance with the provisions of the Namibian Companies Act and comply with International Financial Reporting Standards (IFRS).

The directors have no reason to believe that the company and the group as a whole will not be going concerns in the year ahead, based on forecasts and available cash resources. These financial statements have accordingly been prepared on a going concern basis.

The financial statements have been audited by the independent auditing firm, PricewaterhouseCoopers, who were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditor during the audit were valid and appropriate. The independent auditor's report is presented on page 93.

The financial statements, set out on pages 94 to 220, were authorised and approved for issue by the board of directors on 7 September 2016 and are signed on their behalf by:

J C Brandt
Chairman

M J Prinsloo
Managing director

Independent auditor's report

To the members of Capricorn Investment Group Limited

We have audited the group annual financial statements and annual financial statements of Capricorn Investment Group Limited, which comprise the consolidated and separate statements of financial position as at 30 June 2016, and the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the directors' report, as set out on pages 94 to 220.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Namibia, and for such internal control as directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Capricorn Investment Group Limited as at 30 June 2016, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and requirements of the Companies Act of Namibia.

PricewaterhouseCoopers
Registered Accountants and Auditors
Chartered Accountants (Namibia)
Per: Louis van der Riet
Partner

Windhoek
7 September 2016

Directors' report
for the year ended 30 June 2016

The directors herewith submit their report with the annual financial statements of the Capricorn Investment Group Limited (Capricorn Group or the company) for the year ended 30 June 2016.

1. GENERAL REVIEW

Capricorn Group is a Namibian registered investment holding company and has been listed on the Namibian Stock Exchange (NSX) since 20 June 2013. Its investments comprise 100% shareholdings in Bank Windhoek Ltd, Capricorn Asset Management (Pty) Ltd, Capricorn Unit Trust Management Company Ltd, Namib Bou (Pty) Ltd and Welwitschia Insurance Brokers (Pty) Ltd, all unlisted entities. The company has 29.5% shareholding in Sanlam Namibia Holdings (Pty) Ltd and 28% in Santam Namibia Ltd.

2. BUSINESS ACTIVITIES

The following business activities are conducted through the company's subsidiaries and associates:

Subsidiaries

- Bank Windhoek Ltd (the bank)
  - Banking
- Welwitschia Insurance Brokers (Pty) Ltd
  - Insurance broking
- Namib Bou (Pty) Ltd
  - Property development
- Capricorn Unit Trust Management Company Ltd (CUTM)
  - Unit trust management
- Capricorn Asset Management (Pty) Ltd (CAM)
  - Asset management
- BWH Group Employee Share Ownership Trust
  - Special purpose entity for share incentive scheme
- BWH Group Employee Share Benefit Trust
  - Special purpose entity for share incentive scheme

Subsidiaries of Bank Windhoek Ltd

- Bank Windhoek Nominees (Pty) Ltd
  - Custodian of third-party investments
- BW Finance (Pty) Ltd
  - Microlending
- Bank Windhoek Properties (Pty) Ltd
  - Property investment

DIRECTORS' REPORT (continued)

Associates

- Sanlam Namibia Holdings (Pty) Ltd
  - Long-term insurance
- Santam Namibia Ltd
  - Short-term insurance

Associate of Capricorn Asset Management (Pty) Ltd

- Capricorn Asset Management (Botswana) (Pty) Ltd
  - Asset management

Registered address of Capricorn Group
6th floor
CIH House
Kasino Street
Windhoek
Namibia

Company registration number: 96 / 300

Country of incorporation: Republic of Namibia

3. **FINANCIAL RESULTS AND DIVIDENDS**

The directors report that the group's net profit after taxation from the above business activities for the year ended 30 June 2016 amounted to:

	2016 N$'000	2015 N$'000
Profit for the year	**905,048**	753,002

Normal dividends of N$298.1 million (2015: N$227.4 million) were declared and paid by the company during the year under review. Refer to note 36 to the consolidated annual financial statements for details on dividends per share.

Full details of the financial results of the company and the group are set out on pages 100 to 220.

DIRECTORS' REPORT (continued)

4. SHARE CAPITAL

4.1 Ordinary shares

The company's authorised share capital is 600,000,000 ordinary shares of 2.5 cents each.

For full details on the changes to issued ordinary share capital, refer to note 31 to the consolidated annual financial statements.

4.2 Preference shares

The company has 1,000,000 preference shares of 1 cent each that were authorised in 2008.

For full details on the issued preference share capital and the change to issued preference share capital, refer to notes 26 and 31 to the consolidated annual financial statements.

4.3 Share analysis – ordinary shares

The following shareholders had a beneficial interest of five percent or more of the issued ordinary shares of the company at year-end:

	2016 %	2015 %
Capricorn Investment Holdings Ltd	**55.0**	55.0
Nam-mic Financial Services Holdings (Pty) Ltd	**9.4**	9.4
Namibia Strategic Investments (Pty) Ltd	**8.0**	8.7
Held by the public (111,958,489 number of ordinary shares (2015: 106,301,594))	**22.2**	21.0
Held by other non-public shareholders:	**13.4**	14.5
– Directors direct and indirect shareholding other than companies mentioned above (54,328,262 ordinary shares (2015: 59,392,662))	**10.7**	11.7
– BWH Group Employee Share Ownership Trust (9,915,109 ordinary shares (2015: 10,507,604))	**2.0**	2.1
– BWH Group Employee Share Benefit Trust (3,420,000 ordinary shares (2015: 3,420,000))	**0.7**	0.7

4.4 Share analysis – preference shares

	2016 %	2015 %
Bank Windhoek Corporate Fund	**–**	46.7
Bank Windhoek Selekt Fund	**–**	36.7
Santam Namibia Ltd	**100**	16.6

For full details on the issued preference share capital and the change to issued preference share capital, refer to notes 26 and 31 to the consolidated annual financial statements.

4.5 Share incentive plans

The group operates two equity-settled share-based compensation plans: (1) a share appreciation rights (SAR) plan; and (2) a conditional share plan (CSP), under which the entities within the group receive services from employees as consideration for equity instruments (shares) of Capricorn Group. All grants under the SAR plan and CSP are subject to approval by the Remco. Refer to note 33 to the consolidated annual financial statements and the remuneration report (unaudited) for more information.

DIRECTORS' REPORT (continued)

4. SHARE CAPITAL (continued)

4.5 Share incentive plans (continued)

The group also operates a share purchase scheme (note 17 to the consolidated annual financial statements) and the BWH Group Employee Share Benefit Trust. The BWH Group Employee Share Benefit Trust is intended as an incentive to employees on lower job levels to promote the continued growth of the group by giving them an opportunity to share in dividends distributed by the company, without beneficial rights to the shares.

4.6 Directors' interest in company shares

For details of the directors' holdings in the issued ordinary shares of Capricorn Group, refer to note 40 to the consolidated annual financial statements.

5. SUBSIDIARIES

For details relating to the subsidiaries of Capricorn Group, refer to note 19 to the consolidated annual financial statements.

6. ASSOCIATES

For details relating to the associates of Capricorn Group, refer to note 20 to the consolidated annual financial statements.

7. JOINT ARRANGEMENTS

For details relating to the joint arrangements of Capricorn Group, refer to note 21 to the consolidated annual financial statements.

8. HOLDING COMPANY AND ULTIMATE HOLDING COMPANY

The company is a subsidiary of Capricorn Investment Holdings Ltd (CIH), a company registered in Namibia. This is also the company's ultimate holding company.

9. INSURANCE

Comprehensive insurance cover is in place, as required by the Bank of Namibia BID 14 – "Determinations on minimum insurance for banking institutions".

10. MANAGEMENT BY THIRD PARTY

No business of the company or any part thereof or of a subsidiary has been managed by a third person or a company in which a director has an interest.

DIRECTORS' REPORT (continued)

11. DIRECTORS AND COMPANY SECRETARY

Capricorn Group board composition during the year was as follows:

Non-executive		Nationality	Date appointed	Date resigned
J C Brandt	Chairman	Namibian	5 September 1996	
J J Swanepoel	Vice-chairman	Namibian	1 July 1999	
K B Black		Namibian	13 June 2007	
G Nakazibwe-Sekandi		Ugandan	30 November 2004	
J M Shaetonhodi		Namibian	1 November 2006	
M K Shikongo		Namibian	27 November 2001	
E M Schimming-Chase		Namibian	4 March 2013	
E Knouwds		Namibian	28 March 2013	3 November 2015
F J du Toit		South African	28 March 2013	
D G Fourie		Namibian	29 October 2015	

Executive				
C P de Vries	Managing director until 31 December 2015	South African	1 June 2011	13 January 2016
M J Prinsloo	Managing director as from 1 January 2016	South African	4 March 2013	

At the annual general meeting (AGM) held on 3 November 2015, K B Black, J C Brandt and F J du Toit were unanimously re-elected as directors. All directors appointed since a previous AGM have to be confirmed at the next AGM.

The authorised but unissued number of ordinary and preference shares of the company, subject to the provisions of sections 229 and 230 of the Namibian Companies Act and approval of the NSX, are under the control of the directors of Capricorn Group. This authority expires at the forthcoming AGM on 1 November 2016, when this authority can be renewed.

H G von Ludwiger was the company secretary during the year under review. The business and postal addresses of the company secretary are:

CIH House
Kasino Street
Windhoek
Namibia

PO Box 15
Windhoek
Namibia

12. DIRECTORS' INTERESTS

The directors' interests are reflected in the governance and leadership report.

DIRECTORS' REPORT (continued)

13. AUDITOR

PricewaterhouseCoopers will continue in office as auditor until the next AGM, in accordance with the Companies Act of Namibia.

14. SPECIAL RESOLUTIONS

No special resolutions have been adopted during the year under review. Refer to (ii) below for special resolutions adopted subsequent to year-end.

15. EVENTS SUBSEQUENT TO YEAR-END

(i) On 10 August 2016, a final dividend of 36 cents per ordinary share was declared for the year ended 30 June 2016, paid on 7 September 2016.

(ii) In August 2016 the shareholders resolved to change the name of the company from Bank Windhoek Holdings Limited to Capricorn Investment Group Limited.

(iii) Capricorn Group is in the process of disposing of one of its subsidiaries, Welwitschia Insurance Brokers (Pty) Ltd. The transaction has been approved by the board and the Namibia Competition Commission, subject to the finalisation of the contractual requirements. The amounts involved are immaterial.

No other matters which are material to the financial affairs of the company and group have occurred between year-end and the date of approval of the consolidated annual financial statements.

Consolidated and separate statements of comprehensive income

for the year ended 30 June 2016

	Notes	Group 2016 N$'000	Group 2015 N$'000	Company 2016 N$'000	Company 2015 N$'000
Interest and similar income		**2,963,244**	2,425,239	**–**	–
Interest and similar expenses		**(1,505,102)**	(1,158,278)	**–**	–
Net interest income	5	**1,458,142**	1,266,961	**–**	–
Impairment charges on loans and advances	6	**(60,779)**	(58,305)	**–**	–
Net interest income after loan impairment charges		**1,397,363**	1,208,656	**–**	–
Non-interest income	7	**953,804**	812,598	**477,617**	387,928
Operating income		**2,351,167**	2,021,254	**477,617**	387,928
Operating expenses	9	**(1,180,153)**	(1,042,231)	**(98,237)**	(90,221)
Operating profit		**1,171,014**	979,023	**379,380**	297,707
Share of joint arrangement's results after tax	21	**1,405**	960	**–**	–
Share of associates' results after tax	10	**97,123**	87,159	**–**	–
Profit before income tax		**1,269,542**	1,067,142	**379,380**	297,707
Income tax expense	11	**(364,494)**	(314,140)	**(2,873)**	(2,816)
Profit for the year		**905,048**	753,002	**376,507**	294,891
Other comprehensive income					
Items that may be reclassified to profit or loss					
Change in value of available-for-sale financial assets	15	**33,465**	28,486	**–**	–
Total comprehensive income for the year		**938,513**	781,488	**376,507**	294,891
Basic earnings per ordinary share (cents)	12	**181.2**	150.4		
Fully diluted earnings per ordinary share (cents)	12	**180.8**	149.9		

Consolidated and separate statements of financial position

as at 30 June 2016

		Group		Company	
	Notes	2016 N$'000	2015 N$'000	2016 N$'000	2015 N$'000
ASSETS					
Cash and balances with the central bank	13	**1,169,170**	619,907	**155,057**	132,603
Financial assets designated at fair value through profit or loss	14	**2,408,196**	2,587,461	**141,547**	194,035
Investment securities	15	**133,998**	100,533	**–**	–
Due from other banks	16	**1,006,602**	740,321	**–**	–
Loans and advances to customers	17	**26,598,023**	23,621,871	**–**	–
Other assets	18	**340,530**	368,067	**15,870**	19,921
Current tax asset		**60,177**	4,575	**578**	515
Investment in subsidiaries	19	**–**	–	**744,991**	744,991
Investment in associates	20	**248,297**	233,157	**110,195**	110,195
Interest in joint arrangements	21	**5,099**	3,694	**–**	–
Intangible assets	22	**199,045**	155,165	**–**	–
Property, plant and equipment	23	**158,253**	154,043	**–**	–
Deferred tax asset	29	**6,263**	20,048	**–**	–
Total assets		**32,333,653**	28,608,842	**1,168,238**	1,202,260
LIABILITIES					
Due to other banks	24	**447,129**	130,151	**–**	–
Other borrowings	25	**1,164,051**	–	**–**	–
Debt securities in issue	26	**2,215,345**	2,461,212	**25,142**	150,969
Deposits	27	**23,724,128**	21,993,998	**–**	–
Other liabilities	28	**497,700**	360,746	**42,285**	22,316
Current tax liability		**1,801**	10,946	**–**	–
Post-employment benefits	30	**9,460**	8,416	**–**	–
Total liabilities		**28,059,614**	24,965,469	**67,427**	173,285
EQUITY					
Share capital and premium	31	**512,045**	530,050	**532,206**	539,866
Non-distributable reserves	34	**213,034**	196,486	**–**	–
Distributable reserves	35	**3,548,960**	2,916,837	**568,605**	489,109
Total shareholders' equity		**4,274,039**	3,643,373	**1,100,811**	1,028,975
Total equity and liabilities		**32,333,653**	28,608,842	**1,168,238**	1,202,260

Consolidated and separate statements of changes in equity

for the year ended 30 June 2016

	Notes	Share capital and premium N$'000	Non-distributable reserves: Insurance fund reserve N$'000	Non-distributable reserves: Credit risk reserve N$'000	Distributable reserves: SBCR* N$'000	Distributable reserves: Fair value reserve N$'000	Distributable reserves: General banking reserve N$'000	Distributable reserves: Retained earnings N$'000	Total equity N$'000
GROUP									
Balance at 1 July 2014		532,435	28,617	141,737	12,077	67,831	1,906,657	404,804	3,094,158
Movement in treasury shares		(2,385)	–	–	–	–	–	–	(2,385)
Total comprehensive income for the year		–	–	–	–	28,486	–	753,002	781,488
Profit for the year		–	–	–	–	–	–	753,002	753,002
Other comprehensive income		–	–	–	–	28,486	–	–	28,486
Share-based payment charges	35	–	–	–	5,000	–	–	–	5,000
Profit on sale of treasury shares		–	–	–	–	–	–	764	764
Transfer from SBCR*	35	–	–	–	(10,015)	–	–	–	(10,015)
Transfer between reserves		–	–	26,132	–	–	390,659	(416,791)	–
Dividends	36	–	–	–	–	–	–	(225,637)	(225,637)
Balance at 30 June 2015		530,050	28,617	167,869	7,062	96,317	2,297,316	516,142	3,643,373
Balance at 1 July 2015		**530,050**	**28,617**	**167,869**	**7,062**	**96,317**	**2,297,316**	**516,142**	**3,643,373**
Movement in treasury shares		**(18,005)**	**–**	**–**	**–**	**–**	**–**	**–**	**(18,005)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**33,465**	**–**	**905,048**	**938,513**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**905,048**	**905,048**
Other comprehensive income		**–**	**–**	**–**	**–**	**33,465**	**–**	**–**	**33,465**
Share-based payment charges	35	**–**	**–**	**–**	**6,228**	**–**	**–**	**–**	**6,228**
Utilisation of reserve		**–**	**(844)**	**–**	**–**	**–**	**–**	**–**	**(844)**
Transfer between reserves		**–**	**–**	**17,392**	**–**	**–**	**466,961**	**(484,353)**	**–**
Dividends	36	**–**	**–**	**–**	**–**	**–**	**–**	**(295,226)**	**(295,226)**
Balance at 30 June 2016		**512,045**	**27,773**	**185,261**	**13,290**	**129,782**	**2,764,277**	**641,611**	**4,274,039**

* *Share-based compensation reserve (SBCR)*

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY (continued)

	Notes	Share capital and premium N$'000	Non-distributable reserves: Insurance fund reserve N$'000	Non-distributable reserves: Credit risk reserve N$'000	Distributable reserves: SBCR* N$'000	Distributable reserves: Fair value reserve N$'000	Distributable reserves: General banking reserve N$'000	Distributable reserves: Retained earnings N$'000	Total equity N$'000
COMPANY									
Balance at 1 July 2014		539,866	–	–	2,062	–	–	414,532	956,460
Share-based payment charges	35	–	–	–	5,000	–	–	–	5,000
Total comprehensive income for the year		–	–	–	–	–	–	294,891	294,891
Dividends	36	–	–	–	–	–	–	(227,376)	(227,376)
Balance at 30 June 2015		539,866	–	–	7,062	–	–	482,047	1,028,975
Balance at 1 July 2015		**539,866**	**–**	**–**	**7,062**	**–**	**–**	**482,047**	**1,028,975**
Movement in treasury shares		**(7,660)**	**–**	**–**	**–**	**–**	**–**	**–**	**(7,660)**
Share-based payment charges	35	**–**	**–**	**–**	**1,104**	**–**	**–**	**–**	**1,104**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**–**	**376,507**	**376,507**
Dividends	36	**–**	**–**	**–**	**–**	**–**	**–**	**(298,115)**	**(298,115)**
Balance at 30 June 2016		**532,206**	**–**	**–**	**8,166**	**–**	**–**	**560,439**	**1,100,811**

* *Share-based compensation reserve (SBCR)*

Consolidated and separate statements of cash flows

for the year ended 30 June 2016

	Notes	Group 2016 N$'000	Group 2015 N$'000	Company 2016 N$'000	Company 2015 N$'000
Cash flows from operating activities					
Cash receipts from customers	37.1	**3,921,361**	3,226,606	**89,769**	55,574
Cash paid to customers, suppliers and employees	37.2	**(2,315,360)**	(1,968,532)	**(91,492)**	(74,421)
Cash generated from / (utilised in) operations	37.3	**1,606,001**	1,258,074	**(1,723)**	(18,847)
(Increase) / decrease in operating assets					
Financial assets designated at fair value		**293,049**	(421,073)	**–**	–
Loans and advances to customers and banks		**(3,066,005)**	(3,479,786)	**–**	–
Other assets		**40,969**	(108,519)	**4,051**	(14,665)
Increase in operating liabilities					
Deposits from customers		**1,661,322**	3,184,619	**–**	–
Other liabilities		**140,215**	52,510	**19,969**	6,307
Net cash generated from / (utilised in) operations		**675,551**	485,825	**22,297**	(27,205)
Dividends received		**92,586**	76,420	**383,190**	424,863
Other interest received		**1,160**	588	**4,149**	1,087
Income taxes paid	37.4	**(414,947)**	(317,179)	**(2,427)**	(76)
Net cash generated from operating activities		**354,350**	245,654	**407,209**	398,669
Cash flows from investing activities					
Additions to property, plant and equipment	23	**(43,328)**	(58,981)	**–**	–
Proceeds on sale of property, plant and equipment	37.3	**969**	2,581	**–**	–
Additions to intangible assets	22	**(49,652)**	(65,500)	**–**	–
Acquisition of associate		**–**	(853)	**–**	–
Net cash utilised in investing activities		**(92,011)**	(122,753)	**–**	–
Cash flows from financing activities					
Treasury shares acquired		**(39,053)**	(13,149)	**(7,660)**	–
Treasury shares sold		**21,048**	11,132	**–**	–
Proceeds from other borrowings	25	**1,170,000**	–	**–**	–
Other borrowings coupon payments	25	**(66,187)**	–	**–**	–
Redemption of debt securities in issue	26	**(436,516)**	(202,116)	**(127,395)**	–
Debt securities coupon payments	26	**(185,104)**	(156,575)	**(4,073)**	(10,708)
Proceeds from the issue of debt securities	26	**181,000**	814,014	**–**	–
Dividends paid	36	**(295,226)**	(225,637)	**(298,115)**	(227,376)
Net cash generated from / (utilised in) financing activities		**349,962**	227,669	**(437,243)**	(238,084)
Net increase / (decrease) in cash and cash equivalents		**612,301**	350,570	**(30,034)**	160,585
Cash and cash equivalents at the beginning of the year		**1,959,319**	1,608,749	**326,638**	166,053
Cash and cash equivalents at the end of the year	39	**2,571,620**	1,959,319	**296,604**	326,638

Notes to the consolidated annual financial statements

for the year ended 30 June 2016

1. BASIS OF PRESENTATION

The consolidated annual financial statements of the Capricorn Group (the group or the company) for the year ended 30 June 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS), interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) effective at the time of preparing these statements and in the manner required by the Namibian Companies Act and the NSX. The consolidated annual financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts.

The preparation of consolidated annual financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated annual financial statements, are disclosed in note 4.

1.1 Going concern

The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group should be able to operate within the level of its current financing. The group continues to adopt the going concern basis in preparing its consolidated annual financial statements.

1.2 Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated annual financial statements are presented in Namibian dollar, which is the functional and presentation currency of the company and the presentation currency of the group.

1.3 Standards and interpretations issued

1.3.1 Standards and interpretations issued affecting amounts reported and disclosures in the current year

No new standards and interpretations that were issued in the current reporting period affect amounts reported or disclosures in the current financial year.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

1. BASIS OF PRESENTATION (continued)

1.3 Standards and interpretations issued (continued)

1.3.2 Standards and interpretations issued but not yet effective that is expected to be relevant to the group

Title of standard	Nature of change	Impact	Mandatory application date / Date of adoption by group
IFRS 9 *Financial Instruments*	IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.	Management have now formally started the process to develop an IFRS 9 compliant impairment framework and models. This includes collating data that can be used to estimate expected credit losses and information on the credit quality and performance of borrowers. Existing models such as the macroeconomic forecast model and client rating methodologies are also being considered to ensure efficient use of existing models. Key impairment calculation requirements and considerations include the following key decisions: • setting criteria and cut-off points for significant deterioration; • forecasting credit losses based on borrower performance, forecasted macroeconomic variables and once-off events; and • estimating default risk, default loss rates and outstanding balances over the expected lifetime of the loan. Decisions will balance the strict interpretation of IFRS 9, industry practice and materiality. Management will subsequently explore potential modelling methodologies which will then develop into a prototype model that can be reviewed before implementation. The group will perform a comprehensive assessment of the impact that IFRS 9 classification and measurement would have on the financial statements and internal management reports, as necessary, of the operating divisions. For all financial assets, the classification and measurement requirements of IFRS 9 will be considered based on the group's business model for managing the assets and the contractual cash flow characteristics of the assets.	Must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. Expected date of adoption by the group: 1 July 2018.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

1. BASIS OF PRESENTATION (continued)

1.3 Standards and interpretations issued (continued)

1.3.2 Standards and interpretations issued but not yet effective that is expected to be relevant to the group (continued)

Title of standard	Nature of change	Impact	Mandatory application date / Date of adoption by group
IFRS 15 *Revenue from contracts with customers*	The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18, which covers contracts for goods and services and IAS 11, which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach, entities will recognise transitional adjustments in retained earnings on the date of initial application (e.g. 1 January 2017), i.e. without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.	Management is currently assessing the impact of the new rules.	Mandatory for financial years commencing on or after 1 January 2018. Expected date of adoption by the group: 1 July 2018.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

1. BASIS OF PRESENTATION (continued)

1.3 Standards and interpretations issued (continued)

1.3.2 Standards and interpretations issued but not yet effective that is expected to be relevant to the group (continued)

Title of standard	Nature of change	Impact	Mandatory application date / Date of adoption by group
IFRS 16 *Leases*	After ten years of joint drafting by the IASB and FASB, they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the statement of financial position. Lessor accounting has not substantially changed in the new standard. The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture). A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment. This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed. One of the implications of the new standard is that there will be a change to key financial ratios derived from a lessee's assets and liabilities (for example, leverage and performance ratios). IFRS 16 supersedes IAS 17, "Leases", IFRIC 4, "Determining whether an arrangement contains a lease", SIC 15, "Operating leases – Incentives" and SIC 27, "Evaluating the substance of transactions involving the legal form of a lease".	Management is currently assessing the impact of the new rules.	Mandatory for financial years commencing on or after 1 January 2019. Expected date of adoption by the group: 1 July 2019.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

1. BASIS OF PRESENTATION (continued)

1.3 Standards and interpretations issued (continued)

1.3.2 Standards and interpretations issued but not yet effective that is expected to be relevant to the group (continued)

Title of standard	Nature of change	Impact	Mandatory application date / Date of adoption by group
IAS 7 *Cash flow statements*	In January 2016, the IASB issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.	Management assessed the amendment's impact and concluded that it will only impact the disclosure in the financial statements.	Mandatory for financial years commencing on or after 1 January 2017. Expected date of adoption by the group: 1 July 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated annual financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Consolidation

2.1.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Consolidation (continued)

2.1.1 Subsidiaries (continued)

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

In the company, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

2.1.2 Common control transactions

A common control transaction is defined as a business combination in which all of the combining entities are ultimately controlled by the same party, both before and after the business combination, and control is not transitory. Common control transactions fall outside the scope of IFRS 3, "Business combinations", and therefore the group has elected to apply predecessor accounting in the accounting of these transactions.

The cost of an acquisition of a subsidiary under common control is measured at fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Any costs directly attributable to the acquisition are written off against reserves. On acquisition, the carrying values of assets and liabilities are not restated to fair value. The acquirer incorporates assets and liabilities at their pre-combination carrying amounts at the highest level of consolidation prior to transfer.

Any excess or deficit of the purchase price over the pre-combination recorded ultimate holding company's net asset value of the subsidiary is adjusted directly to equity. Any differences to values of the subsidiary's underlying assets and liabilities compared with those presented by the ultimate holding company and adjustments to achieve harmonisation of accounting policies will be adjusted in the records of the acquired company prior to consolidation.

In common control transactions, the group has elected to incorporate the acquired entity's results from the date of the business combination. As a consequence, comparative information is not restated. The principles of when control arises are the same as those for interests in subsidiaries, where purchase price accounting is applied.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Consolidation (continued)

2.1.3 Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between the fair value of any consideration paid and the relevant shares acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Interests in the equity of subsidiaries not attributable to the parent are reported in consolidated equity as non-controlling interest. Profits or losses attributable to non-controlling interests are reported in the consolidated statement of comprehensive income as profit or loss attributable to non-controlling interests.

2.1.4 Disposal of subsidiaries

When the group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in the carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.1.5 Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The group's share of post-acquisition profit or loss is recognised in profit or loss and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The group determines, at each reporting date, whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of associates' results" in profit or loss.

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the consolidated annual financial statements only to the extent of unrelated investors' interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Consolidation (continued)

2.1.5 Associates (continued)

Dilution gains and losses arising in investments in associates are recognised in profit or loss.

Investments in associates are measured at cost less impairment in the company's financial statements. For summarised financial information on the group's associates accounted for on the equity method, refer to note 20.

2.1.6 Joint arrangements

Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Refer to note 21 for the group's joint arrangements. Joint arrangements are accounted for using the equity method.

Under the equity method of accounting, interests in joint arrangements are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the group's share of losses in a joint arrangement equals or exceeds its interests in the joint arrangement (which includes any long-term interests that, in substance, form part of the group's net investment in the joint arrangement), the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint arrangement.

Unrealised gains on transactions between the group and its joint arrangement are eliminated to the extent of the group's interest in the joint arrangement. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint arrangement have been changed where necessary to ensure consistency with the policies adopted by the group.

Investments in joint arrangements are measured at cost less impairment in the company's financial statements.

2.2 Foreign currency translation

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated annual financial statements are presented in Namibian dollar (N$), which is the group's presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss under trading income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial instruments

2.3.1 Financial assets

The group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments; and
- available-for-sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale, are recognised on trade date – the date on which the group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers.

(i) Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading; and those designated at fair value through profit or loss at inception. The designation cannot be changed subsequently.

A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are categorised as held for trading, unless they are designated as hedges.

Financial assets are designated at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to customers or banks and debt securities in issue;
- they are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis; or
- financial instruments, such as debt securities held, containing one or more embedded derivative that significantly modifies the cash flows, is designated at fair value through profit or loss.

Treasury bills, government stock, unit trust investments, money market investments, derivative financial instruments and other debt securities are designated in this category.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value are included under net gain from financial instruments designated at fair value through profit or loss in profit or loss and in the period in which they arise. Interest income and dividend income are included in “net interest income” or “other operating income”, respectively.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial instruments (continued)

2.3.1 Financial assets (continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are carried at amortised cost using the effective interest rate method. Interest calculated using the effective interest rate method is recognised in profit or loss.

Loans and advances to customers, due from other banks, cash and balances with the central bank and other assets are classified in this category.

(iii) Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. If the group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method. Interest calculated using the effective interest rate method is recognised in profit or loss.

(iv) Available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale instruments are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss.

Interest on available-for-sale securities calculated using the effective interest method is recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss in "other operating income" when the group's right to receive payments is established. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

Investment securities are classified in this category.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial instruments (continued)

2.3.2 Financial liabilities

The group recognises a financial liability when it becomes a party to the contractual terms of the financial instrument. The group classifies its financial liabilities in the following categories:

- at amortised cost; and
- financial liabilities at fair value through profit or loss.

Financial liabilities are initially recognised at fair value, being its issue proceeds (fair value of consideration received) net of transaction costs incurred, for all financial liabilities not carried at fair value through profit or loss.

(i) At amortised cost

The liability is subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in profit or loss over the period of the liability using the effective interest rate method.

The dividends on preference shares are recognised in profit or loss as interest expenses on an amortised cost basis, using the effective interest rate method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Classified in this category are amounts due to other banks, debt securities in issue, deposits and other liabilities.

(ii) Financial liabilities at fair value through profit or loss

This category comprises two subcategories, namely:

- financial liabilities classified as held for trading; and
- financial liabilities designated by the group as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedges. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller. Those financial instruments are recognised in the consolidated statement of financial position as "financial liabilities held for trading".

Classified in this category are derivative financial instruments.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial instruments (continued)

2.3.3 Determination of fair value

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments;
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date; and
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

All of the resulting fair value estimates are included in level 2 except for unlisted equity securities, a contingent consideration receivable and certain derivative contracts, where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

2.3.4 Derecognition

The group derecognises a financial asset when:

- the contractual rights to the asset expire; or
- where there is a transfer of the contractual rights to receive the cash flows of the financial asset and substantially all of the risks and rewards related to the ownership of the financial asset are transferred; or
- the group retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and rewards associated with the asset.

Where the group retains substantially all the risks and rewards of ownership of the financial asset, the group continues to recognise the financial asset in its entirety and recognises a financial liability for the consideration received. These financial assets and the related financial liabilities may not be offset.

Where the group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the group determines whether it has retained control of the financial asset. In this case:

- if the group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer; or
- if the group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The group derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired. A substantial modification of the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new one. A substantial modification to the terms occurs where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial instruments (continued)

2.3.5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.3.6 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques, which include discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique the variables of which include only data from observable markets. When such evidence exists, the group recognises profits on day one.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss.

The group's derivative financial instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and the derivatives are disclosed separately in the statement of financial position.

2.4 Impairment of financial assets

A financial asset is considered as impaired when there is objective evidence of impairment.

2.4.1 Financial assets carried at amortised cost

The group assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Impairment of financial assets (continued)

2.4.1 Financial assets carried at amortised cost (continued)

Objective evidence that a financial asset or group of assets is impaired, includes observable data that comes to the attention of the group about the following loss events:

(i) significant financial difficulty of the issuer or obligator;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii) the group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(v) the disappearance of an active market for that financial asset because of financial difficulties; or
(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

The group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Impairment of loans and advances

Impairment losses are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to profit or loss. The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

The group employs scientific techniques to determine the specific and portfolio impairment of its loans and advances.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Impairment of financial assets (continued)

2.4.1 Financial assets carried at amortised cost (continued)

(i) Individually assessed loans and advances

All loans and advances are assessed on a case-by-case basis at each reporting date as to whether there is any objective evidence that a loan is impaired. Loans and advances are individually assessed for impairment when they have been flagged as being past due more than 90 days. Furthermore, the criteria used to determine that there is such objective evidence include the loss events described above. For loans where objective evidence of impairment exists, impairment losses are determined considering the aggregate exposure to the client and the realisable value of security (or other credit mitigants) and the likelihood of successful repossession.

Due from other banks have not been impaired as these placements are made to banks that have high credit standing and, by policy, limits the amounts of credit exposure to any one financial institution. Refer to note 3.2.5. For more detailed procedures followed by the group on individual assessed loans and advances, refer to the risk and compliance report.

(ii) Collectively assessed loans and advances

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated portfolio impairment. The calculation is based on the incurred but not reported (IBNR) model, which takes into account that it may take a period of time before management becomes aware of objective evidence that a loan is impaired. Key inputs into this model are the historical average of probability of default and the historic average loss given default. The emergence period is also factored into the model, which represents management's view of how long it takes for the objective evidence to become known to management.

To the extent that the unidentified impairments are insufficient to meet the minimum regulatory portfolio impairment, such shortfall is accommodated by a transfer of the applicable amount from distributable (retained earnings) to non-distributable reserves (credit risk reserve).

When a loan is uncollectable, it is written off against the loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the loan impairment in profit or loss.

For more detailed procedures followed by the group on collectively assessed loans and advances, refer to the risk and compliance report.

2.4.2 Financial assets carried at fair value

The group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Impairment of financial assets (continued)

2.4.3 Renegotiated loans

Financial assets that would otherwise be past due that have been renegotiated are separately classified as neither past due nor impaired assets. Renegotiated loans are loans where, due to deterioration in the counterparty's financial condition, the group granted a concession where the original terms and conditions of the facility were amended and the counterparty is within the new terms of the loan. Loans are only classified as renegotiated if the terms of the renegotiated contract have not yet expired and remain classified as such until the terms of the renegotiated contract expire. Where the loans are reclassified as neither past due nor impaired, the adherence to the new terms and conditions is closely monitored.

2.5 Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) are reclassified in the consolidated annual financial statements as pledged assets when the transferee has the right, by contract or custom, to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method.

Securities borrowed are not recognised in the consolidated annual financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

2.6 Intangible asset

2.6.1 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree. Goodwill on acquisition of subsidiaries is included in "intangible assets" and carried at cost less accumulated impairment losses. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of the value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

2.6.2 Computer software and development costs

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible asset (continued)

2.6.2 Computer software and development costs (continued)

- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period.

The cost of a separately acquired intangible asset comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and any directly attributable cost of preparing the asset for its intended use. Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives as follows:

Operating software	3 years
Application software	7 years

2.7 Property, plant and equipment

Land and buildings mainly comprise branches and offices. All property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Motor vehicles	5 years
Furniture, fittings and other office equipment	6.67 – 8.3 years
Computer equipment	3 – 5 years
Buildings	24 – 30 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other operating income" in profit or loss.

Investment properties held by group companies and which are occupied by other group companies are recognised as property, plant and equipment in the consolidated annual financial statements.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed property is included under other assets as inventory as it is held for sale in the ordinary course of business, at the lower of cost or net realisable value, and is derecognised when the asset is sold to a third party.

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

2.10 Leases

2.10.1 A group company is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The leases entered into by the group are primarily operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.10.2 A group company is the lessor

Leases of property, plant and equipment, where the group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in payables. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.11 Cash and cash equivalents

Cash and cash equivalents are stated at cost, which approximates fair value due to the short-term nature of these instruments.

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, balances with less than 3 months' maturity from the reporting date, including cash and non-restricted balances with the central bank, treasury bills and other eligible bills, placements with other banks, short-term government securities, money market investments and short-term borrowings from other banks. In the statement of financial position, bank overdrafts are shown within "due to other banks" as liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions for restructuring costs and legal claims are recognised when the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in provision due to passage of time is recognised as an interest expense.

2.13 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's-length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history or past losses, supplemented by the judgement of management.

Any increase in the liability relating to financial guarantees is taken to profit or loss under operating expenses.

2.14 Employee benefits

2.14.1 Pension obligations

The group operates a defined-contribution plan. The plan is generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. A defined-contribution plan is a pension plan under which the group pays fixed contributions into a separate entity.

The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as assets to the extent that a cash refund or a reduction in the future payments is available. The group provides no other post-retirement benefits to their retirees.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Employee benefits (continued)

2.14.2 Severance pay provision

In terms of the Labour Act of 2007, the group is required to make payments (or provide other benefits) to employees when it terminates their employment. The implication of this requirement is that severance pay has to be paid to all employees when the employee:

(i) is dismissed (except if due to misconduct or poor performance); or
(ii) dies while employed.

The group therefore has an obligation, more specifically a defined benefit, in terms of IAS 19, "Employee benefits". The benefit is unfunded and is valued using the projected unit credit method as prescribed by IAS 19, "Employee benefits". Refer to note 30 for assumptions made in the determination of the group's liability with respect to severance pay.

2.14.3 Leave pay

Employee benefits in the form of annual leave entitlements are provided for when they accrue to employees with reference to services rendered up to the reporting date.

2.14.4 Performance bonuses

The group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit before tax after certain adjustments. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.15 Share-based payments

The group operates two equity-settled share-based compensation plans: (1) a share appreciation rights plan; and (2) a conditional share plan, under which the entities within the group receive services from employees as consideration for equity instruments (shares) of Capricorn Group (refer to the directors' report and remuneration report (unaudited) for more details of each plan). Equity-settled share purchase schemes are valued at grant date. The fair value of the employee services received in exchange for the grant of the shares and share options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the shares and share options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the group revises its estimates of the number of shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

2.16 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Current and deferred income tax (continued)

2.16.1 Deferred income tax

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated annual financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities, including derivative contracts and tax losses carried forward and, in relation to acquisitions, from the difference between the fair values of the net assets acquired and their tax base.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liabilities, where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the group is unable to control the reversal of the temporary difference for associates only where there is an agreement in place that gives the group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities, where there is an intention to settle the balances on a net basis.

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are recognised in other comprehensive income, is also recognised in other comprehensive income and is subsequently recognised in profit or loss together with the deferred gain or loss.

2.16.2 Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

The group recognises revenue when the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2.17.1 Net trading income

Net trading income comprises all gains and losses from changes in the fair value of financial assets and liabilities held for trading, as well as foreign exchange gains and losses arising from instruments held for trading.

2.17.2 Interest income and expenses

Interest income and expenses are recognised in profit or loss for all instruments measured at amortised cost using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income and dividend income on financial assets at fair value through profit or loss are included in "net interest income" or "dividend income", respectively.

When a loan and receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.17.3 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Revenue recognition (continued)

2.17.3 Fee and commission income (continued)

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionment basis. Asset management fees related to investment funds are recognised over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Insurance broking commission, policy fee income and administration fee income comprise commission income and negotiated fees earned in respect of the placement of insurance and servicing of clients under insurance programmes. Income is brought to account when the premium is received and paid over to the insurer. Commission and administration fee income is deferred over the policy term.

2.17.4 Other income

Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreements. Dividend income is recognised when the right to receive payment is established.

Other income from the sale of residential units comprises the fair value of the consideration received or receivable, shown net of value-added tax, returns, rebates and discounts. Income is recognised on a stage-of-completion basis. Other income from consultations and valuations is recognised as services are delivered.

2.18 Share capital

2.18.1 Share issue

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

Incremental costs directly attributable to the issue of new ordinary shares or options, or to the acquisition of a business, are shown in equity as a deduction, net of tax, from the proceeds.

2.18.2 Treasury shares

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

Shares held by the employee share trusts and other group companies, which form part of the consolidated group, are deducted from total shareholders' equity until the shares are sold.

2.19 Inventory (residential units)

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the first-in-first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventory include the transfer from equity of any gains / losses on qualifying cash flow hedges for purchases of raw materials.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the consolidated annual financial statements in the period in which the dividends are declared by the board of directors.

Dividends for the year that are declared after the reporting date are dealt with in the events subsequent to year-end note in the directors' report.

2.21 Fiduciary activities

The group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these consolidated annual financial statements, as they are not assets of the group.

2.22 Operating segments

The group considers its banking operations as one operating segment; the group has no significant components other than banking. Other components include property development, insurance brokerage, asset management and unit trust management. However, these components each contribute less than 5% to the group revenue, assets and profit for the year. Therefore, the group has no significant components other than banking. This is in a manner consistent with the internal reporting provided to the chief operating decision-maker, identified as the managing director of the group. The chief operating decision-maker is the person that allocates resources to and assesses the performance of the operating segment(s) of an entity.

In assessing the performance of the banking operation, the managing director reviews the various aggregated revenue streams, the total costs and the assets and liabilities related to the banking activity, which have been disclosed in the various notes to the consolidated annual financial statements.

3. FINANCIAL RISK MANAGEMENT

Any business that requires a return on capital investment is exposed to financial risks. Managing these risks continues to play a pivotal role within the group to ensure an appropriate balance is reached between risks and returns. The board of directors is ultimately responsible to manage risks that may either have a positive or negative impact on its financial performance, and which may ultimately have an adverse effect on the continued operations of the group. However, it is the responsibility of management to identify risks, whether real or anticipated, within their business units, and take appropriate actions.

Management's approach to risk management is to ensure all significant risks are identified and managed, and the returns are balanced with the risks taken. Compliance with a set of comprehensive risk management policies is an integral part of the group's day-to-day activities and systems of internal controls have been implemented to prevent and detect risks.

The key principles forming the foundation of the group's risk management process include:

- adoption of a risk management framework which applies to all business units and risk types;
- risk assessment, measurement, monitoring and reporting;
- independent reviews and assessment; and
- risk governance processes.

The following subcommittees have been formed to assist the board audit, risk and compliance committee (BARC) to manage risks:

3. FINANCIAL RISK MANAGEMENT (continued)

Board credit committee (BCC) and board lending committee (BLC)

One of the group's primary activities is lending to retail and commercial borrowers. The bank accepts deposits from customers or borrows money from investors at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in quality assets. The BCC and BLC are tasked to ensure this objective is achieved through the sanctioning of credit and thereby ensuring credit exposures remain within an acceptable range of credit standing. Such exposures involve not just loans and advances reflected on the statement of financial position, but also guarantees and other commitments such as letters of credit.

Asset and liability committee (ALCO)

The primary responsibility of the ALCO is the management of market and liquidity risks within set risk capacity, appetite and tolerance thresholds while, at the same time, optimising the group's profitability and capital position. The ALCO reviews the macroeconomic environment, as well as historical financial and strategic performance as inputs in a strategy development process, which is supported by simulations and forecasting. The group trades in financial instruments where it takes positions in traded instruments, including derivatives, to take advantage of, and hedge against adverse, short-term market movements in bonds and in currency, interest rate and commodity prices. Among other responsibilities, ALCO is tasked to monitor the risks associated with these activities.

Risk management includes the setting of trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. In addition, with the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

The ALCO also carries the primary responsibility of monitoring the group's liquidity position, as well as formulating the funding strategy. The interest rate subcommittee reviews the economic environment and recommends interest rate views to ALCO. ALCO activities are reported to the BARC.

Risk committee

In addition to the mentioned committees, the risk committee, comprising members of the executive management team and reporting to the BARC, was established. Its primary responsibilities are to:

- evaluate the risk management model employed by the group in terms of effectiveness and efficient deployment of resources (i.e. cost versus benefit);
- discuss and identify gaps and weaknesses in the management information system;
- to enable management to make the correct decisions;
- discuss the findings and recommendations of the group's risk functions and evaluate whether appropriate action has been taken when necessary;
- enhance general risk awareness within the group;
- monitor the management of risks to ensure that the group complies with the Bank of Namibia's guidelines for effective risk management; and
- discuss in detail any identified, unidentified and potential risks that are material to the group.

Credit risk forum (CRF)

The purpose of the CRF is to have an oversight of credit risk management in accordance with the board-approved credit risk framework, in order to achieve and maintain an acceptable credit risk profile and an adequate risk and control framework.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

Credit risk forum (CRF) (continued)

On portfolio credit risk level, the scope of the CRF includes:

- portfolio analysis and performance;
- key risk indicators and trends;
- risk-adjusted pricing performance on portfolio level;
- discuss and review credit portfolio risk and recommend to the business units risk enhancement;
- product and pricing strategies;
- discuss and review of annual risk appetites and stress testing of the credit portfolio before submission to the risk committee; and
- discuss and review collateral and recommend necessary improvements.

The CRF facilitates compliance with:

- Basel and other best practices for credit risk management;
- applicable legislation acts;
- Bank of Namibia determinations; and
- Bank Windhoek credit policies.

Significant risks to which the group are exposed are discussed below.

3.1 Analysis of assets and liabilities

Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies on pages 109 to 128 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the financial assets and liabilities in the statement of financial position per category of financial instrument to which they are assigned and therefore measured. The table includes non-financial assets and liabilities to reconcile to the statement of financial position:

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Analysis of assets and liabilities (continued)

Group	Held for trading N$'000	Designated at fair value through profit / loss N$'000	Loans and receivables N$'000	Available-for-sale financial assets N$'000	Financial liabilities at amortised cost N$'000	Non-financial assets / liabilities N$'000	Total N$'000
				2016			
ASSETS							
Cash and balances with the central bank	–	–	1,169,170	–	–	–	1,169,170
Financial assets designated at fair value through profit or loss	–	2,408,196	–	–	–	–	2,408,196
Investment securities	–	–	–	133,998	–	–	133,998
Due from other banks	–	–	1,006,602	–	–	–	1,006,602
Loans and advances to customers	–	–	26,598,023	–	–	–	26,598,023
Other assets	229	–	260,312	–	–	79,989	340,530
Current tax asset	–	–	–	–	–	60,177	60,177
Investment in associates	–	–	–	–	–	248,297	248,297
Interest in joint arrangements	–	–	–	–	–	5,099	5,099
Intangible assets	–	–	–	–	–	199,045	199,045
Property, plant and equipment	–	–	–	–	–	158,253	158,253
Deferred tax asset	–	–	–	–	–	6,263	6,263
Total assets	**229**	**2,408,196**	**29,034,107**	**133,998**	**–**	**757,123**	**32,333,653**
LIABILITIES							
Due to other banks	–	–	–	–	447,129	–	447,129
Other borrowings	–	–	–	–	1,164,051	–	1,164,051
Debt securities in issue	–	–	–	–	2,215,345	–	2,215,345
Deposits	–	–	–	–	23,724,128	–	23,724,128
Other liabilities	6,069	–	–	–	472,801	18,830	497,700
Current tax liability	–	–	–	–	–	1,801	1,801
Post-employment benefits	–	–	–	–	–	9,460	9,460
Total liabilities	**6,069**	**–**	**–**	**–**	**28,023,454**	**30,091**	**28,059,614**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Analysis of assets and liabilities (continued)

	2015						
Group	**Held for trading N$'000**	**Designated at fair value through profit / loss N$'000**	**Loans and receivables N$'000**	**Available-for-sale financial assets N$'000**	**Financial liabilities at amortised cost N$'000**	**Non-financial assets / liabilities N$'000**	**Total N$'000**
ASSETS							
Cash and balances with the central bank	–	–	619,907	–	–	–	619,907
Financial assets designated at fair value through profit or loss	–	2,587,461	–	–	–	–	2,587,461
Investment securities	–	–	–	100,533	–	–	100,533
Due from other banks	–	–	740,321	–	–	–	740,321
Loans and advances to customers	–	–	23,621,871	–	–	–	23,621,871
Other assets	977	–	316,324	–	–	50,766	368,067
Current tax asset	–	–	–	–	–	4,575	4,575
Investment in associates	–	–	–	–	–	233,157	233,157
Interest in joint arrangements	–	–	–	–	–	3,694	3,694
Intangible assets	–	–	–	–	–	155,165	155,165
Property, plant and equipment	–	–	–	–	–	154,043	154,043
Deferred tax asset	–	–	–	–	–	20,048	20,048
Total assets	977	2,587,461	25,298,423	100,533	–	621,448	28,608,842
LIABILITIES							
Due to other banks	–	–	–	–	130,151	–	130,151
Debt securities in issue	–	–	–	–	2,461,212	–	2,461,212
Deposits	–	–	–	–	21,993,998	–	21,993,998
Other liabilities	1,731	–	–	–	343,494	15,521	360,746
Current tax liability	–	–	–	–	–	10,946	10,946
Post-employment benefits	–	–	–	–	–	8,416	8,416
Total liabilities	1,731	–	–	–	24,928,855	34,883	24,965,469

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk

The group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairments are provided for losses that have been incurred at the reporting date. Significant changes in the economy of a particular industry segment that represents a concentration in the group's portfolio, could result in losses that are different from those provided for at the reporting date. Credit risk, together with large exposures, is monitored by the BARC.

In addition to credit risk through a loan, the group is exposed to counterparty credit risk, which is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Unlike credit exposures to loans, exposures to counterparty credit could result in a positive or negative impact to the financial performance of the group, depending on the underlying market factors. Such risk is associated primarily with derivative transactions.

3.2.1 Credit risk measurement

(a) Loans and advances (including loan commitments and guarantees)

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The group has developed statistical models to support the quantification of credit risk. These quantitative models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring the credit risk of loans and advances at a counterparty level, the group considers three components, namely: (i) the "probability of default" (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the group derives the "exposure at default" (EAD); and (iii) the expected loss on the defaulted obligations the "loss given default" (LGD).

These credit risk measurements, which reflect expected loss (the expected loss model), are required by the Basel Committee on banking regulations and the supervisory practices (the Basel Committee) and are embedded in the group's daily operational management. The operational credit risk measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the date of the statement of financial position (the incurred loss model) rather than expected losses (note 3.2.4).

(i) Probability of default

The PD is an indication of the probability that a given loan will default. Under Basel II the elements that make up a loss are defined as economic loss and will include direct and indirect costs associated with collecting on the exposure, such as allocations of internal overheads and other non-cash costs. The PD in Basel is calculated using a historical one-year average to annualise the figures over one year.

(ii) Exposure at default

The EAD under Basel II will take into account an expectation of future draw-downs until the default event has occurred by utilising a credit conversion factor. For example, for a loan this is the face value. For a commitment, the group includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.1 Credit risk measurement (continued)

(a) Loans and advances (including loan commitments and guarantees) (continued)

(iii) Loss given default

LGD or loss severity represents the group's expectation of the extent of loss on a claim should default occur (1 – recovery rate). It is expressed as percentage loss per unit of exposure. It typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. The measurement of EAD and LGD is based on the risk parameters standard under Basel II. The Basel Committee on Banking Supervision document on international convergence of capital measurement and capital standards states that the expected loss should be a one-year estimate. For this reason, and to relate the LGD to the PD one-year average, the LGD is also computed over a one-year history. The LGD should be a percentage of the EAD as required by Basel II.

3.2.2 Maximum exposure to credit risk before collateral held or other credit enhancements

Group	Notes	Maximum exposure 2016 N$'000	Maximum exposure 2015 N$'000
Credit risk exposures relating to on-statement of financial position assets are as follows:			
Cash and balances with the central bank	13	**1,169,170**	619,907
Financial assets designated at fair value through profit or loss	14	**2,408,196**	2,587,461
– Treasury bills		**2,051,859**	2,120,868
– Government stock		**94,855**	17,966
– Unit trust investments		**22,565**	19,232
– Money market investments		**229,677**	215,224
– Other debt securities		**9,240**	214,171
Investment securities	15	**133,998**	100,533
Due from other banks	16	**1,006,602**	740,321
Gross loans and advances to customers	17	**26,825,310**	23,817,768
– Overdrafts		**4,156,406**	3,672,578
– Term loans		**4,977,056**	4,549,801
– Mortgages		**13,738,202**	11,850,416
– Instalment finance		**3,435,162**	3,348,452
– Preference shares		**518,484**	396,521
Other assets*	18	**260,541**	317,301
Total exposure on statement of financial position		**31,803,817**	28,183,291
Credit risk exposure relating to off-statement of financial position items are as follows:			
Liabilities under guarantees	38	**1,450,178**	1,610,392
Letters of credit	38	**634,568**	731,813
Loan commitments	38	**2,094,090**	1,929,720
Total exposure off statement of financial position		**4,178,836**	4,271,925
Total credit risk exposure		**35,982,653**	32,455,216

** Other assets exposed to credit risk include insurance fund asset, accounts receivable, derivatives as well as clearing and settlement accounts.*

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.2 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

The table represents a worst-case scenario of credit risk exposure to the group as at 30 June 2016 and 2015, without taking account of any collateral held or other credit enhancements attached. For all assets listed on the statement of financial position, the exposures set out above are based on carrying amounts as reported.

The most significant exposures are derived from loans and advances to banks and customers.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the group resulting from both its loans and advances portfolio and other securities based on the following:

- The group employs a range of policies and practices to mitigate credit risk. Refer to note 3.2.3.
- Mortgage loans, which represent the biggest group in the loans and advances to customers portfolio, are backed by collateral.
- All financial assets, other than special mention and non-performing loans and advances, are neither past due nor impaired.

3.2.3 Risk limit control and mitigation policies

The group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a monthly basis and are subject to regular review. Limits on the level of credit risk by country are approved by the board of directors. The exposure to any one borrower, including banks and brokers, is further restricted by sub-limits covering on- and off-statement of financial position exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts.

Exposure to credit risk is managed up front when an application for credit is received. The credit risk management model is utilised by the group and assesses the three components of safety, desirability and profitability. Throughout the lifespan of the credit facility, regular analyses of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations are assessed and lending limits are changed where appropriate. Exposure to credit risk is also managed in part by obtaining collateral, insurance and corporate and personal guarantees. The amount the group is willing to lend unsecured is capped and approved by the board.

Placements with banks, including loans and advances to banks, are subject to the normal credit process. The credit limits to these banks take into consideration ratings performed by external rating agencies.

Other specific control and mitigation measures are outlined below:

(a) Collateral

The group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. Within the credit risk area, mandates are predetermined in order to ensure that the applicable level of authority provides guidance and approval for advances. Risk exposure to advances is reduced by obtaining approved security as defined by the BCC and listed in the advance instruction manual.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Risk limit control and mitigation policies (continued)

(a) Collateral (continued)

The group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- cash deposited with and ceded to the group;
- deposits with any registered financial institution and ceded to the group;
- life insurance policies with a confirmed surrender value; and
- any other form of tangible collateral security subject to approval by the BCC.

Collateral per class of loans and advances

Mortgages:

- first, second and third covering bond; and
- cession of fire policy.

Instalment finance:

- the instalment finance contract binds the article as security.

The following security can be given for any loan class depending on the circumstances and purpose of the loan:

- suretyships;
- registered cession of life insurance policy; and
- cession of fixed deposits, notice deposits, bills, bonds, shares, investments or debtors.

Valuation methodologies (which include applying a hair-cut to the fair value of collateral depending on a number of factors) and the period of validity on collateral are outlined in established policies, which are approved by the board.

Property valuation

In the case where a property is offered as security in the form of covering a mortgage bond, the valuation of the property is valid for two years in the banking book (excluding residential properties offered for home loans). A revaluation of the property needs to be done when there is an indication that the value of the property has declined. A revaluation of the property by an approved valuator is required when a further advance or additional mortgage is applied for, when repayment comes in arrears, when an application for the release of collateral or any additional security is received or for properties in possession. Homeowners' comprehensive insurance is compulsory for all mortgage loans. All articles financed by the bank must be comprehensively insured.

Life insurance valuation

Life insurance that is used as security for loans taken out at the bank is ceded to the bank and the cession is registered by the insurance company. The values of the life insurance policies ceded to the bank must be updated at least annually to determine the security value and to establish whether premiums are up to date.

Credit life insurance

In the case of microloans, the customer signs a formal loan agreement and sufficient credit life insurance is ceded to the bank. A formal payroll agreement between the applicant's employer and the bank is also signed. Non-government applicants must sign an acknowledgement of debt and cede their surplus benefits (e.g. unpaid leave) payable on termination of service to the bank.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Risk limit control and mitigation policies (continued)

(a) Collateral (continued)

Long-term finance and lending to corporate entities are generally secured. In addition, in order to minimise the credit loss, the group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Although revolving individual credit facilities are generally unsecured, these are only granted to clients after stringent credit reviews.

(b) Financial instruments subject to master netting arrangements (MNA) and similar agreements

In accordance with IAS 32 the group offsets financial assets and financial liabilities and presents the net amount in the statement of financial position only if there is both a legally enforceable right to offset and there is an intention to settle the amounts on a net basis or to realise the asset and settle the liability simultaneously. The group is subject to an MNA in the form of ISDA agreements with counterparties. ISDA agreements, under which swaps and derivatives are traded, may not be legally enforceable as one transaction to enforce post insolvency set-off and netting within Namibia, thus the IAS 32 set off requirements are not met. Consequently no financial assets and financial liabilities, subject to MNAs, have been presented on the net amount in the statement of financial position.

(c) Derivatives

The group maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the group (i.e. assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the group requires margin deposits from counterparties.

(d) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurance that the group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the group on behalf of a customer authorising a third party to draw drafts on the group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

3.2.4 Impairment policies

The credit measurement process as described in note 3.2.1 focuses on expected credit losses, taking into account the risk of future events giving rise to losses. By contrast, impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the date of the statement of financial position based on objective evidence of impairment (see note 2.4.1). Due to the different methodologies applied, the amount of incurred credit losses provided for in the consolidated annual financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.5 Credit quality of loans and advances and other financial instruments

(i) Credit quality and management of loans and advances

Initial applications

The bank is the largest contributor to the group's credit risk. Bank Windhoek applies a standardised approach when assessing applications for credit. All applications are completed according to the Bank Windhoek risk model, which covers all information required to make an informed decision when granting advances. The risk model has the main components of safety, desirability and profitability, which are further broken down as:

- background;
- needs;
- financial position;
- security;
- desirability;
- profitability; and
- recommendation – positive / negative aspects.

No internal scoring models are used except for the microloans book, where the Delphi score forms part of the assessment. Assessments on all other loan classes are performed on a judgemental basis.

Subsequent credit assessments

Management information system reports were developed over time in order to effectively monitor and manage the quality of the loan portfolio and proactively identify problem accounts and trends. The following reports are generated:

- Excesses are reported on a daily basis and reviewed annually.
- The branches submit a monthly report on specific issues in order to take remedial actions on dormant accounts, suspended accounts, irregular accounts (outstanding 45 days and longer), outstanding security, special mention accounts, guarantees, letters of credit and foreign exchange contracts, floor plans, savings accounts in overdraft and bad debts written off within branch mandates.
- The credit department submits a monthly report to the executive management team at Bank Windhoek level and a more detailed report to the board of directors on a quarterly basis regarding the status of the credit portfolio of the bank.
- Monthly statistics per product are used to monitor the quality and management of the loan portfolio per branch.
- All clients with exposures approved above branch level are interviewed by credit before non-performing accounts are transferred to the legal collections branch.
- All transfers to the legal collections branch with an impairment higher than N$10,000 are scrutinised by the credit department and categorised under:
  - poor assessment;
  - poor management;
  - poor collateral management;
  - economic reasons; and
  - other.

Bank Windhoek has a process to proactively manage potential problem accounts to prevent possible losses. These advances are identified with assistance of the branches and are part of monthly credit reporting processes. Impairments on these active accounts are raised in accordance with BID 2 – "Determination on asset classification, suspension of interest and provisioning" requirements under the special mention category.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.5 Credit quality of loans and advances and other financial instruments (continued)

(i) Credit quality and management of loans and advances (continued)

The table below shows the loans and advances age analysis:

Group	Neither past due nor impaired N$'000	Special mention Past due not impaired N$'000	0 – 30 days N$'000	31 – 60 days N$'000	61 – 90 days N$'000	Non-performing More than 90 days N$'000	Total N$'000
As at 30 June 2016							
Overdrafts	**4,015,562**	**1,952**	**43,333**	**635**	**20,338**	**74,586**	**4,156,406**
Term loans	**4,887,919**	**161**	**759**	**936**	**116**	**87,165**	**4,977,056**
Mortgages	**13,485,456**	**26,647**	**78,456**	**26,062**	**2,353**	**119,228**	**13,738,202**
Instalment finance	**3,344,747**	**1,383**	**10,896**	**1,943**	**1,956**	**74,237**	**3,435,162**
Preference shares	**518,484**	**–**	**–**	**–**	**–**	**–**	**518,484**
Total gross loans and advances	**26,252,168**	**30,143**	**133,444**	**29,576**	**24,763**	**355,216**	**26,825,310**
Specific impairment raised against unsecured amount*	**–**	**–**	**(15,805)**	**(3,580)**	**(10,022)**	**(118,422)**	**(147,829)**
Total loans and advances after specific impairments	**26,252,168**	**30,143**	**117,639**	**25,996**	**14,741**	**236,794**	**26,677,481**
Security held against impaired loans	**–**	**(24,467)**	**(66,648)**	**(25,996)**	**(14,741)**	**(236,794)**	**(368,646)**
	26,252,168	**5,676**	**50,991**	**–**	**–**	**–**	**26,308,835**
As at 30 June 2015							
Overdrafts	3,576,687	27	20,041	5	–	75,818	3,672,578
Term loans	4,502,176	395	972	280	13	45,965	4,549,801
Mortgages	11,686,848	6,040	73,947	5,136	873	77,572	11,850,416
Instalment finance	3,264,270	–	14,220	8,277	305	61,380	3,348,452
Preference shares	396,521	–	–	–	–	–	396,521
Total gross loans and advances	23,426,502	6,462	109,180	13,698	1,191	260,735	23,817,768
Specific impairment raised against unsecured amount*	–	–	(21,877)	(4,691)	(286)	(101,320)	(128,174)
Total loans and advances after specific impairments	23,426,502	6,462	87,303	9,007	905	159,415	23,689,594
Security held against impaired loans	–	(6,462)	(87,303)	(9,007)	(905)	(159,415)	(263,092)
	23,426,502	–	–	–	–	–	23,426,502

** The specific impairment raised against the 0 – 30 days, 31 – 60 days and 61 – 90 days categories relates to a number of clients with future possible loss indicators.*

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.5 Credit quality of loans and advances and other financial instruments (continued)

(i) Credit quality and management of loans and advances (continued)

Further information of the impairment allowance for loans and advances to customers is provided in note 17.

(ii) Non-performing loans and advances

Loans and advances are managed with reference to the days in arrears. Loans and advances outstanding for longer than 90 days are considered non-performing. As determined by the requirements of BID 2 – "Determination on asset classification, suspension of interest and provisioning", any asset which is overdue 60 days or more but less than 90 days shall be classified as special mention, at a minimum and is subject to impairment. Bank Windhoek follows a more conservative approach than the regulator and already classifies loans in 0 – 30 days and 31 – 60 days as special mention, where, on a case-by-case basis, indicators of a possible future loss event exist. Loans categorised as special mention accounts are performing but subject to at least the minimum impairments as per the BID 2 determination.

Non-performing loans and advances to customers before taking into consideration the cash flows from collateral held is N$355.2 million (2015: N$260.7 million). The breakdown of the gross amounts of non-performing loans and advances by class, along with the value of related tangible collateral held by the group as security, is as follows:

Group	Overdrafts N$'000	Term loans N$'000	Mortgages N$'000	Instalment finance N$'000	Total N$'000
As at 30 June 2016					
Non-performing loans	**74,586**	**87,165**	**119,228**	**74,237**	**355,216**
Value of tangible collateral	**30,582**	**67,021**	**101,390**	**37,801**	**236,794**
Impairment raised against unsecured amount	**44,004**	**20,144**	**17,838**	**36,436**	**118,422**
Net exposure	–	–	–	–	–
As at 30 June 2015					
Non-performing loans	75,818	45,965	77,572	61,380	260,735
Value of tangible collateral	31,444	19,029	64,934	44,008	159,415
Impairment raised against unsecured amount	44,374	26,936	12,638	17,372	101,320
Net exposure	–	–	–	–	–

The value of tangible collateral disclosed above is limited to the outstanding balance, therefore any over-collateralised portion of a loan is excluded from the value of tangible collateral. Impairments are raised for under-collateralised non-performing loans, resulting in a net exposure of nil.

Refer to note 3.2.3(a) for the range of collateral policies and practices in place.

(iii) Non-performing loans and advances by geographical area

All non-performing loans are within the geographical area of Namibia.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.5 Credit quality of loans and advances and other financial instruments (continued)

(iv) Credit quality of financial assets other than loans and advances

As at 30 June the following financial instruments are neither past due nor impaired:

Group	2016 N$'000	2015 N$'000
Cash and balances with the central bank	**1,169,170**	619,907
Financial assets designated at fair value through profit or loss	**2,408,196**	2,587,461
Investment securities	**133,998**	100,533
Due from other banks	**1,006,602**	740,321
Other assets	**260,541**	317,301

No impairment has been raised against these assets.

Balances with the central bank and treasury bills and government stock (financial assets designated at fair value) are subject to counterparty limits. Balances due from other banks are also subject to counterparty limits and together with credit ratings are factors in determining the investment decision.

The bank applies credit ratings in line with BID 17 "Country risk management" to reflect the credit risk of financial instruments. External credit ratings from reputable international rating agencies are utilised for cross-border exposures, which is augmented with thorough internal credit and financial analyses in the determination and setting of exposure limits. Distinction between two broad credit quality classes is made, i.e. investment grade (AAA to BBB) and speculative / high-yield (BB and lower). Fitch ratings are utilised as far as possible. If Fitch ratings are not available, Moody's and Standard & Poor's ratings are used for classification. If no ratings are available, i.e. certain African countries for example, these exposures are classified as unrated.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.5 Credit quality of loans and advances and other financial instruments (continued)

(iv) Credit quality of financial assets other than loans and advances (continued)

The following section summarises the credit quality of financial assets and exposures to corresponding and counterparty banks for 30 June:

Group	Carrying value N$'000	Investment grade (AAA to BBB) N$'000	Unrated N$'000	Total N$'000
As at 30 June 2016				
Balances with the central bank	**–**	**880,968**	**–**	**880,968**
Cash balances	**–**	**–**	**288,202**	**288,202**
Financial assets designated at fair value through profit or loss	**–**	**2,207,035**	**201,161**	**2,408,196**
– Treasury bills	**–**	**2,051,859**	**–**	**2,051,859**
– Government stock	**–**	**94,855**	**–**	**94,855**
– Money market investments	**–**	**53,372**	**176,305**	**229,677**
– Other securities	**–**	**6,949**	**24,856**	**31,805**
Investment securities	**–**	**132,881**	**1,117**	**133,998**
Due from other banks	**–**	**860,097**	**146,505**	**1,006,602**
Other assets	**–**	**–**	**260,541**	**260,541**
Non-financial assets	**757,123**	**–**	**–**	**757,123**
Total assets (excluding loans and advances)	**757,123**	**4,080,981**	**897,526**	**5,735,630**

Group				
As at 30 June 2015				
Balances with the central bank	–	400,348	–	400,348
Cash balances	–	–	219,559	219,559
Financial assets designated at fair value through profit or loss	–	2,350,461	237,000	2,587,461
– Treasury bills	–	2,120,868	–	2,120,868
– Government stock	–	17,966	–	17,966
– Money market investments	–	2,321	212,903	215,224
– Other securities	–	13,247	220,156	233,403
Investment securities	–	98,897	1,636	100,533
Due from other banks	–	659,486	80,835	740,321
Other assets	–	–	317,301	317,301
Non-financial assets	621,448	–	–	621,448
Total assets (excluding loans and advances)	621,448	3,509,192	856,331	4,986,971

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.5 Credit quality of loans and advances and other financial instruments (continued)

(iv) Credit quality of financial assets other than loans and advances (continued)

Unrated exposures

Unrated exposures consist mainly of cash balances, due from other banks and money market investments, which are short term and highly liquid in nature. The creditworthiness of these government and large commercial banks' money market instruments are of high quality, which poses low credit risk. Other assets consist of accounts receivable, insurance fund asset, derivatives as well as clearing and settlement accounts. Rated and unrated exposures are not collateralised and foreign currency exposures are hedged.

The following risk weightings are applied for due from other banks when calculating the risk-based capital ratios:

(a) Long-term claims

Exposures to banks assigned a credit risk assessment rating of AAA to AA-	**20%**
Exposures to banks assigned a credit assessment rating of A+ to BBB- or unrated	50%
Exposures to banks assigned a credit assessment rating of BB+ to B-	**100%**
Exposures to banks assigned a credit assessment rating of below B-	150%

(b) Short-term claims

Claims denominated and funded in domestic currency with an original maturity of 3 months or less, assigned a credit assessment rating of AAA to BBB- or unrated	**20%**
Exposures to banks assigned a credit risk assessment rating of AAA to AA-	20%
Exposures to banks assigned a credit assessment rating of A+ to BBB- or unrated	**20%**
Claims to banks assigned a credit assessment rating of BB+ to B- or unrated	50%
Claims to banks assigned a credit assessment rating of below B-	**150%**

3.2.6 Repossessed collateral

The group obtains assets by taking possession of collateral held as security. The value of the assets still on the statement of financial position for both 30 June 2016 and 30 June 2015 was nil. Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the statement of financial position as other assets.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.7 Credit risk weighted amounts

The following risk-weighted amounts, including related impairments and write-offs, have been assigned to the components of credit risk for the group, as defined in BID 5 – "Determination on capital adequacy". The figures below will not reconcile to the statement of financial position as it represents statutory amounts.

	Exposure N$'000	Impairment N$'000	Risk-weighted amounts N$'000	Written off N$'000
As at 30 June 2016				
Counterparties				
Sovereign and central bank	2,764,084	–	–	–
Public sector entities	524,570	–	201,307	–
Banks	1,001,103	–	281,785	–
Corporate	6,406,855	32,286	6,381,162	–
Retail	6,155,536	58,797	4,613,495	33,985
Residential mortgage properties	7,620,471	8,912	3,843,592	600
Commercial real estate	6,117,731	1,548	6,126,820	–
Other assets	1,625,743	–	656,620	–
Included in other assets:				
– Listed shares	133,998	–	133,998	–
	32,216,093	101,543	22,104,781	34,585
Commitments	4,179,061	–	1,587,204	–
As at 30 June 2015				
Counterparties				
Sovereign and central bank	2,294,364	–	–	–
Public sector entities	613,689	–	190,475	–
Banks	886,946	–	178,286	–
Corporate	5,756,771	47,949	5,697,441	–
Retail	5,596,430	35,916	4,220,503	13,566
Residential mortgage properties	6,385,539	7,834	3,212,285	417
Commercial real estate	5,464,877	863	5,471,398	–
Other assets	1,532,692	–	576,236	–
Included in other assets:				
– Listed shares	100,533	–	100,533	–
	28,531,308	92,562	19,546,624	13,983
Commitments	4,271,915	–	1,766,641	–

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.7 Credit risk weighted amounts (continued)

Only claims on banks are risk-weighted based on external credit assessment for capital adequacy calculations. The group utilises available external rating agencies' ratings on both short-term and long-term exposures. No amounts are deducted from the group's capital. The Bank of Namibia does not have its own credit rating. The sovereign and central bank credit risk weighting has been 0% for local currency issued and controlled by the central bank for the last three financial years. The long-term country credit rating by an external credit rating agency for Namibia was as follows:

	2016	**2015**
Namibia long-term local currency issuer default rating	**BBB**	BBB
Namibia long-term issuer default rating	**BBB-**	BBB-

3.2.8 Credit concentration risk

The group manages credit concentration risk by imposing credit risk concentration caps on the exposure for different loans and advances classifications, such as product classes, regions and industry. The credit risk concentration caps are directly linked to the board-approved risk capacity, appetite and tolerance thresholds, and are managed as part of the risk management process. The credit concentration risk is also further assessed using stress testing and scenario analyses quantitative models.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.8 Credit concentration risk (continued)

Credit risk concentration by industry

The following table breaks down the group's main credit exposure at their gross amounts, as categorised by the industry sectors of counterparties:

Group	Cash and balances with the central bank N$'000	Investment securities N$'000	Financial assets designated at fair value through profit or loss N$'000	Due from other banks N$'000	Loans and advances to customers N$'000	Other assets N$'000	Total N$'000
As at 30 June 2016							
Agriculture and forestry	–	–	–	–	1,255,992	–	1,255,992
Fishing	–	–	–	–	257,483	–	257,483
Mining	–	1,117	–	–	275,942	–	277,059
Manufacturing	–	–	–	–	726,923	–	726,923
Building and construction	–	–	–	–	2,171,678	–	2,171,678
Electricity, gas and water	–	–	–	–	129,455	–	129,455
Trade and accommodation (note 1)	–	–	–	–	11,264,185	–	11,264,185
Transport and communication	–	–	–	–	477,928	–	477,928
Finance and insurance	288,202	–	261,482	1,006,602	1,326,602	229	2,883,117
Real estate and business services	–	–	–	–	5,007,458	–	5,007,458
Government	880,968	–	2,146,714	–	18,011	–	3,045,693
Individuals	–	–	–	–	3,876,690	–	3,876,690
Other (note 2)	–	132,881	–	–	36,963	260,312	430,156
Impairment	–	–	–	–	(227,287)	–	(227,287)
	1,169,170	133,998	2,408,196	1,006,602	26,598,023	260,541	31,576,530

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.8 Credit concentration risk (continued)

Credit risk concentration by industry (continued)

Group	Cash and balances with the central bank N$'000	Investment securities N$'000	Financial assets designated at fair value through profit or loss N$'000	Due from other banks N$'000	Loans and advances to customers N$'000	Other assets N$'000	Total N$'000
As at 30 June 2015							
Agriculture and forestry	–	–	–	–	1,213,735	–	1,213,735
Fishing	–	–	–	–	212,177	–	212,177
Mining	–	1,636	–	–	256,324	–	257,960
Manufacturing	–	–	–	–	584,678	–	584,678
Building and construction	–	–	–	–	2,129,331	–	2,129,331
Electricity, gas and water	–	–	–	–	74,276	–	74,276
Trade and accommodation (note 1)	–	–	–	–	9,982,188	–	9,982,188
Transport and communication	–	–	–	–	456,290	–	456,290
Finance and insurance	219,559	–	448,627	740,321	1,421,432	977	2,830,916
Real estate and business services	–	–	–	–	4,041,380	–	4,041,380
Government	400,348	–	2,138,834	–	3,567	–	2,542,749
Individuals	–	–	–	–	3,387,892	–	3,387,892
Other (note 2)	–	98,897	–	–	54,498	316,324	469,719
Impairment	–	–	–	–	(195,897)	–	(195,897)
	619,907	100,533	2,587,461	740,321	23,621,871	317,301	27,987,394

Note 1: Trade and accommodation includes all loans and advances granted to individuals that acquire property for residential purposes, e.g. residential mortgage loans and advances granted to hotels, lodges, restaurants and the related.

Note 2: Other assets include the insurance fund asset, accounts receivable, derivatives as well as clearing and settlement accounts.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.9 Credit risk concentration by geographical area

Group	Cash and balances with the central bank N$'000	Investment securities N$'000	Financial assets designated at fair value through profit or loss N$'000	Due from other banks N$'000	Loans and advances to customers N$'000	Other assets N$'000	Total N$'000
As at 30 June 2016							
Namibia	**1,169,170**	**–**	**2,408,196**	**137,911**	**26,598,023**	**260,312**	**30,573,612**
South Africa	**–**	**–**	**–**	**292,489**	**–**	**229**	**292,718**
United Kingdom	**–**	**1,117**	**–**	**266**	**–**	**–**	**1,383**
United States of America	**–**	**132,881**	**–**	**275,932**	**–**	**–**	**408,813**
Zambia	**–**	**–**	**–**	**44,941**	**–**	**–**	**44,941**
Other countries[1]	**–**	**–**	**–**	**255,063**	**–**	**–**	**255,063**
	1,169,170	**133,998**	**2,408,196**	**1,006,602**	**26,598,023**	**260,541**	**31,576,530**
As at 30 June 2015							
Namibia	619,907	–	2,587,461	300,003	23,621,871	316,324	27,445,566
South Africa	–	–	–	35,782	–	977	36,759
United Kingdom	–	1,636	–	15,520	–	–	17,156
United States of America	–	98,897	–	337,704	–	–	436,601
Zambia	–	–	–	2,255	–	–	2,255
Other countries[1]	–	–	–	49,057	–	–	49,057
	619,907	100,533	2,587,461	740,321	23,621,871	317,301	27,987,394

There are no exposures to other foreign countries which are not recorded on the statement of financial position.

[1] *Other foreign currency exposures included in the table above relate mainly to exposures to the Botswana pula: N$135.2 million (2015: N$0.7 million) due from other banks.*

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.10 Financial instruments: asset and liability offsetting

Included in loans and advances to customers are receivables of N$23.5 million (2015: N$26.9 million) for which the bank has a legally enforceable right to set off the recognised amounts and will realise the asset and settle the liability simultaneously.

The financial asset and financial liability has thus been off-set in the statement of financial position. Refer below for details of the gross financial asset and gross financial liability.

	Group	
	2016 N$'000	**2015 N$'000**
Gross financial asset	**70,060**	81,866
Gross financial liability	**(46,515)**	(54,950)
Net financial asset included in loans and advances to customers	**23,545**	26,916

Refer to note 17 for details of loans and advances to customers.

3.3 Market risk

The group takes on exposure to market risks. Market risks arise from net open positions in interest rate, currency and commodity products, all of which are exposed to general and specific market movements. It is the group's policy not to enter into long-term, unhedged fixed interest rate contracts for loans and advances. Interest rate structures of deposits reflect the interest rate view and strategy of the ALCO and maturity structures of term deposits are in line with the ALCO policy. Interest rate structures are addressed on a monthly basis by the ALCO. External market resources are used in the determination of interest rate views by the interest rate subcommittee.

3.3.1 Market risk measurement techniques

The group employs several measurement techniques to assess potential exposures to market change. Sensitivity analysis is applied to measure the impact of changes in interest rates. This measure is of importance in assessing the exposure of the group's trading portfolio and the effect of such changes on the interest margin.

Other measurement techniques include comprehensive analysis of maturities, both from the advances and funding perspective.

3.3.2 Foreign currency risk

The group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk is managed through the market risk framework as well as the treasury dealing policy, both of which are approved by the board.

Market risk is managed by closely monitoring the limits as set out in the market risk framework. The group follows a conservative approach to the products it deals with, and the approved products as well as the limits thereof are detailed in the dealing limits policy. The board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored continuously.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.2 Foreign currency risk (continued)

The traders' limits are a function of responsibility, experience and qualifications. Foreign currency risk management is achieved through an automated risk management system, and the limit management is independently administered by the middle office risk function within the risk department. All traders are required to sign off on the applicable policies, must be knowledgeable about its contents, and have them on hand when trading. All excesses on limits are immediately flagged, investigated, mitigated, and escalated if required.

Models and stress tests are used to gain an increased understanding of the market risk environment. In addition, foreign exchange positions are managed via stop-loss orders and closing or hedging out unwanted exposure via derivatives or in the spot market. Additionally, it is the bank's policy to close out all forward and option foreign currency transactions via back-to-back forward and option foreign currency transactions with counterparty banks, which is also diligently monitored by the independent middle office risk function.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.2 Foreign currency risk (continued)

Concentration of foreign currency denominated financial instruments

The table below summarises the group's exposure to foreign currency exchange rate risk at year-end. Included in the table are the group's financial instruments at the carrying amounts, categorised by currency:

Group	NAD N$'000	ZMW N$'000	US$ N$'000	€ N$'000	ZAR[1] N$'000	Other[2] N$'000	Total N$'000
As at 30 June 2016							
ASSETS							
Cash and balances with the central bank	1,128,387	–	23,741	16,437	–	605	1,169,170
Financial assets designated at fair value through profit or loss	2,408,196	–	–	–	–	–	2,408,196
Investment securities	–	–	132,881	–	–	1,117	133,998
Due from other banks	137,911	44,941	275,932	115,745	292,489	139,584	1,006,602
Loans and advances to customers	26,546,218	–	2,553	4,120	–	45,132	26,598,023
Other assets	260,312	–	–	–	229	–	260,541
Total financial assets	30,481,024	44,941	435,107	136,302	292,718	186,438	31,576,530
Non-financial assets	757,123	–	–	–	–	–	757,123
Total assets	31,238,147	44,941	435,107	136,302	292,718	186,438	32,333,653
LIABILITIES							
Due to other banks	119,999	–	61,229	14,222	116,460	135,219	447,129
Other borrowings	–	–	–	–	1,164,051	–	1,164,051
Debt securities in issue	828,394	–	–	–	1,386,951	–	2,215,345
Deposits	22,984,587	–	608,646	77,323	–	53,572	23,724,128
Other liabilities	472,801	–	–	–	6,069	–	478,870
Total financial liabilities	24,405,781	–	669,875	91,545	2,673,531	188,791	28,029,523
Non-financial liabilities	30,091	–	–	–	–	–	30,091
Total liabilities	24,435,872	–	669,875	91,545	2,673,531	188,791	28,059,614
Total equity	4,274,039	–	–	–	–	–	4,274,039
Total equity and liabilities	28,709,911	–	669,875	91,545	2,673,531	188,791	32,333,653
Net financial position of financial instruments	6,075,243	44,941	(234,768)	44,757	(2,380,813)	(2,353)	3,547,007
Credit commitments	–	–	634,025	5,892	13,054	575	653,546

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.2 Foreign currency risk (continued)

Group	NAD N$'000	ZMW N$'000	US$ N$'000	€ N$'000	ZAR[1] N$'000	Other[2] N$'000	Total N$'000
As at 30 June 2015							
ASSETS							
Financial assets	27,369,584	2,255	451,776	73,634	36,759	53,386	27,987,394
Non-financial assets	621,448	–	–	–	–	–	621,448
Total assets	27,991,032	2,255	451,776	73,634	36,759	53,386	28,608,842
LIABILITIES							
Financial liabilities	22,923,739	–	480,641	68,117	1,454,437	3,652	24,930,586
Non-financial liabilities	34,883	–	–	–	–	–	34,883
Total liabilities	22,958,622	–	480,641	68,117	1,454,437	3,652	24,965,469
Total equity	3,643,373	–	–	–	–	–	3,643,373
Total equity and liabilities	26,601,995	–	480,641	68,117	1,454,437	3,652	28,608,842
Net financial position of financial instruments	4,445,845	2,255	(28,865)	5,517	(1,417,678)	49,734	3,056,808
Credit commitments	–	–	704,912	38,405	27,884	920	772,121

[1] *The Namibian dollar is pegged to the South African rand and is therefore not exposed to currency risk.*

[2] *Other foreign currency exposures included in the table above relate mainly to exposures to the Botswana pula: N$135.2 million (2015: N$0.7 million) due from other banks and N$135.2 million (2015: N$0.2 million) due to other banks is exposed to the Botswana pula.*

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.2 Foreign currency risk (continued)

The following exchange rates (number of units of Namibian dollar per unit of foreign currency) were used on conversion of foreign currency monetary items at the reporting date:

	2016	2015
USD	**14.69**	12.16
GBP	**19.71**	19.16
EUR	**16.30**	13.62
ZAR	**1.00**	1.00
ZMW	**0.67**	0.62

The following is a sensitivity analysis, monitored on the following major currencies of non-equity instruments, had a 5% change arisen on the various currencies:

	Group Effect on profit for the year	
	2016 N$'000	2015 N$'000
US dollar / Namibian dollar	**(172,437)**	(17,550)
– Foreign currency financial assets	**319,586**	274,680
– Foreign currency financial liabilities	**(492,023)**	(292,230)
Euro / Namibian dollar	**36,477**	3,757
– Foreign currency financial assets	**111,086**	50,145
– Foreign currency financial liabilities	**(74,609)**	(46,388)

The following effect of 5% change would arise on equity instruments:

	Group Effect on other comprehensive income	
	2016 N$'000	2015 N$'000
Effect of US dollar denominated equity instrument	**6,644**	4,945

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored monthly.

Assets and liabilities are classified as interest-sensitive if the interest rate is floating (classified in the "up to one month" bucket) or if the interest rate applied to the outstanding principal balance fluctuates contractually during its lifespan (classified at the earliest of reprise or maturity). The key assumption made is that when an asset or liability matures within a certain bucket, the principal amount will be reprised. If an asset matures, the proceeds are reinvested and when any liability matures, the liability is replaced with new funding. Balances classified as "non-interest sensitive" are not affected by changes in interest rates, e.g. statutory cash balances with the Bank of Namibia, which carries no interest. The balances included in the buckets are therefore exposed to both cash flow risk (to the extent that interest rates are floating) and fair value risk (to the extent that interest rates are fixed until reprised). This is in the manner consistent with information communicated to key management.

The table below summarises the group's exposure to interest rate risks. It includes the group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates:

(i) Interest rate risk analysis

Group	Up to 1 month N$'000	1 – 3 months N$'000	3 – 12 months N$'000	More than 1 year N$'000	Non-interest sensitive N$'000	Total N$'000
As at 30 June 2016						
ASSETS						
Cash and balances with the central bank	617,370	–	–	–	551,800	1,169,170
Financial assets designated at fair value through profit or loss	570,061	568,321	1,182,153	87,661	–	2,408,196
Investment securities	–	–	–	–	133,998	133,998
Due from other banks	1,006,602	–	–	–	–	1,006,602
Loans and advances to customers	26,420,515	742	2,267	46,203	128,296	26,598,023
Other assets	55,085	–	–	–	205,456	260,541
Total financial assets	28,669,633	569,063	1,184,420	133,864	1,019,550	31,576,530
Non-financial assets	–	–	–	–	757,123	757,123
Total assets	28,669,633	569,063	1,184,420	133,864	1,776,673	32,333,653

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.3 Interest rate risk (continued)

(i) Interest rate risk analysis (continued)

Group	Up to 1 month N$'000	1 – 3 months N$'000	3 – 12 months N$'000	More than 1 year N$'000	Non-interest sensitive N$'000	Total N$'000
As at 30 June 2016						
LIABILITIES						
Due to other banks	447,129	–	–	–	–	447,129
Other borrowings	–	1,164,051	–	–	–	1,164,051
Debt securities in issue	25,142	1,652,477	1,726	536,000	–	2,215,345
Deposits	14,768,561	4,720,197	4,133,260	102,110	–	23,724,128
Other liabilities	–	–	–	–	478,870	478,870
Total financial liabilities	15,240,832	7,536,725	4,134,986	638,110	478,870	28,029,523
Total non-financial liabilities	–	–	–	–	30,091	30,091
Total liabilities	15,240,832	7,536,725	4,134,986	638,110	508,961	28,059,614
Total equity	–	–	–	–	4,274,039	4,274,039
Total equity and liabilities	15,240,832	7,536,725	4,134,986	638,110	4,783,000	32,333,653
Interest sensitivity gap (financial instruments)	13,428,801	(6,967,662)	(2,950,566)	(504,246)	540,680	3,547,007
Cumulative interest sensitivity gap (financial instruments)	13,428,801	6,461,139	3,510,573	3,006,327	3,547,007	
As at 30 June 2015						
Interest sensitivity gap (financial instruments)	11,043,928	(5,037,943)	(2,574,941)	(783,006)	408,770	3,056,808
Cumulative interest sensitivity gap (financial instruments)	11,043,928	6,005,985	3,431,044	2,648,038	3,056,808	

The interest rate sensitivity gap is determined based on methodology applied when reviewing interest rate risk.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.3 Interest rate risk (continued)

(ii) Interest rate sensitivity analysis

An interest rate sensitivity analysis shows how net interest income will perform under a variety of scenarios. The sensitivities below measure the effect of overall changes in interest rates on profit or loss (net interest income) as defined by the bank's interest rate modelling tool. The extent of the shock (50, 100 or 200 basis points) is applied to all interest rates in the system and the effects of these shocks are detailed below.

	Group	
	2016 N$'000	**2015 N$'000**
The following interest-rate sensitivity is based on the effect of changes to the interest rate over a 12-month period on net interest income:		
50 basis points increase	**33,890**	41,657
– Increase in interest income	**155,341**	137,087
– Increase in interest expense	**(121,451)**	(95,430)
50 basis points decrease	**(33,626)**	(20,476)
– Decrease in interest income	**(155,112)**	(116,663)
– Decrease in interest expense	**121,486**	96,187
100 basis points increase	**68,044**	83,563
– Increase in interest income	**310,931**	274,221
– Increase in interest expense	**(242,887)**	(190,658)
100 basis points decrease	**(66,811)**	(57,581)
– Decrease in interest income	**(309,818)**	(249,140)
– Decrease in interest expense	**243,007**	191,559
200 basis points increase	**136,958**	167,968
– Increase in interest income	**622,806**	548,920
– Increase in interest expense	**(485,848)**	(380,952)
200 basis points decrease	**(153,703)**	(159,119)
– Decrease in interest income	**(617,284)**	(514,181)
– Decrease in interest expense	**463,581**	355,062

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.4 Price risk

The following fair value financial instruments expose the group to price risk: derivative financial instruments, treasury bills, government stock and unit trust investments designated at fair value through profit or loss and equity securities classified as available for sale. The equity securities are listed on the FTSE and NYSE and are included in "investment securities" on the statement of financial position. The group generally does not undertake equity exposure. The exposure arose due to specific circumstances and they are managed individually.

		Group	
	Sensitivity analysis	**2016 N$'000**	**2015 N$'000**
(i)	*Investment securities*		
	The following is a sensitivity analysis showing the increase / (decrease) in the fair value of equity securities had the following changes arisen on the significant inputs:		
	10% increase in share price (effect on other comprehensive income)	**13,400**	10,054
	10% decrease in share price (effect on other comprehensive income)	**(13,400)**	(10,054)
(ii)	*Financial assets designated at fair value through profit or loss*		
	The following is a sensitivity analysis showing the increase / (decrease) in the fair value of treasury bills had the following changes arisen on the significant inputs:		
	100 basis points increase in discount rate (effect on profit or loss)	**(7,172)**	(9,551)
	100 basis points decrease in discount rate (effect on profit or loss)	**7,246**	9,665
	The following is a sensitivity analysis showing the increase / (decrease) in the fair value of government stock had the following changes arisen on the significant inputs:		
	100 basis points increase in discount rate (effect on profit or loss)	**(3,493)**	(873)
	100 basis points decrease in discount rate (effect on profit or loss)	**3,684**	915

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.5 Market risk capital charge

The following capital charges have been assigned to the components of market risk for the banking group, as defined in BID 5 – "Determination on capital adequacy":

	Capital charges	
	2016 N$'000	**2015 N$'000**
Interest rate risk	**11,085**	11,947
Foreign exchange risk	**37,068**	11,559

3.4 Liquidity risk

Liquidity risk is the risk that the group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn.

Liquidity risk is inherent in the group's business endeavours and represents the ability of the group to fund increases in assets and meet its financial obligations in a timely manner as they come due without incurring excessive costs, while complying with all statutory and regulatory requirements. The bank is the largest contributor to the group's liquidity risk. The liquidity risk framework and Contingency Funding Plan (CFP) sets out the minimum liquidity risk management requirements for the bank, and explains the low-level internal control processes. Under the policy, the bank is required to manage current and future liquidity positions in a prudent manner. This framework formalises the liquidity risk management process of the bank, the goal of which is to:

- maintain liquidity risk at a manageable level through assessment and monitoring;
- assess and advise against any permanent or temporary adverse changes to the liquidity position of the bank;
- set and monitor limits for funding mix, investment products and client exposures;
- monitor all applicable financial and statutory ratios; and
- identify those liquidity triggers that may entail the activation of the CFP.

The framework sets out rules to effectively control liquidity risk within the risk-return parameters dictated by the board of directors' risk appetite. The bank also embarks on annual test to evaluate the effectiveness of the CFP, while also continuously enhancing the risk management processes.

The framework aims to protect depositors, creditors, shareholders and other stakeholders of the bank by establishing rules and directions for identifying and managing the resolution of possible serious liquidity problems.

Asset liquidity risk represents the availability of sufficient assets in liquid form to meet pressing obligations. In situations where liquid assets on hand could be utilised to earn a higher return instead of paying current obligations, the opportunity cost also plays a role (i.e. potential higher return less the cost of obtaining replacement liquidity). Liquidity management must attempt to match the most appropriate available liquidity to the most appropriate maturing liabilities.

Funding liquidity risk relates to an enterprise's capability to generate funding at short notice at reasonable expense to meet pressing liquidity requirements.

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

The group's liquidity management process is outlined in the group liquidity risk framework which includes, inter alia, the group's funding strategy. Procedures, as set out in this policy, include the:

- daily monitoring of liquid assets;
- proactive identification of liquidity requirements and maturing assets;
- liquid asset minimum limit;
- proactive identification of short, medium and long-term liquidity requirements; and
- relationship management with other financial institutions.

In general, the bank does not engage in complex activities or structures and therefore it is considered unnecessary to employ sophisticated and expensive models when determining liquidity needs under various scenarios. A basic but thorough forward-looking analysis is conducted in the day-to-day, as well as monthly analysis of liquidity positions, needs and risks. Limits and rules stipulated in the liquidity risk management policy and by ALCO form the basis for daily quotes on deposits to ensure that an optimal mix and concentrations are maintained.

The bank does not have any committed borrowing facilities (e.g. commercial paper facilities) or other lines of credit (e.g. standby credit facilities) it can access to meet liquidity needs. The bank is required to hold a minimum reserve balance at Bank of Namibia, but this cannot be utilised for day-to-day liquidity requirements. The Bank of Namibia current account is, however, utilised to facilitate payment at a favourable rate.

As part of the bank's strategy, it continuously focuses on diversifying its funding sources and reducing its reliance on large depositors, which is a common occurrence in the Southern African financial markets. That said, the bank utilises a broad range of deposit and funding products to attract all spheres of clients and has strong market share representation in all categories. Refer to note 25 for other borrowings obtained during the year and note 26 for the redemption and additions to debt securities.

The bank must, at all times, hold an adequate liquid asset surplus which:

- includes a buffer portion;
- is additional to credit lines;
- is adequate to cater for unexpected outflows; and
- is simultaneously limiting the effect this surplus has on interest margins.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

Liquidity risk analysis

The table below presents the cash flows payable by the group by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows, hence it does not reconcile to the values reflected on the statement of financial position:

	Contractual undiscounted cash flows					
Group	**Call to 1 month N$'000**	**1 – 3 months N$'000**	**3 – 12 months N$'000**	**1 – 5 years N$'000**	**Over 5 years N$'000**	**Total N$'000**
As at 30 June 2016						
FINANCIAL LIABILITIES						
Due to other banks	447,129	–	–	–	–	447,129
Other borrowings	–	–	–	1,564,902	814,468	2,379,370
Debt securities in issue	3,513	52,789	598,748	1,832,937	260,414	2,748,401
Deposits	13,211,843	2,671,996	6,363,330	2,255,025	519	24,502,713
Other liabilities	472,871	797	–	5,983	–	479,651
Total liabilities (contractual maturity dates)	14,135,356	2,725,582	6,962,078	5,658,847	1,075,401	30,557,264
Commitments (refer to note 3.2.7 for collateral held over commitments)	4,178,836	–	–	–	–	4,178,836
Loan commitments	2,094,090	–	–	–	–	2,094,090
Liabilities under guarantees	1,450,178	–	–	–	–	1,450,178
Letters of credit	634,568	–	–	–	–	634,568
As at 30 June 2015						
Due to other banks	130,151	–	–	–	–	130,151
Debt securities in issue	3,017	52,467	277,341	2,372,030	209,380	2,914,235
Deposits	12,539,604	2,461,872	5,928,303	1,703,366	6,135	22,639,280
Other liabilities	343,560	520	521	556	208	345,365
Total liabilities (contractual maturity dates)	13,016,332	2,514,859	6,206,165	4,075,952	215,723	26,029,031
Commitments (refer to note 3.2.7 for collateral held over commitments)	4,271,925	–	–	–	–	4,271,925
Loan commitments	1,929,720	–	–	–	–	1,929,720
Liabilities under guarantees	1,610,392	–	–	–	–	1,610,392
Letters of credit	731,813	–	–	–	–	731,813

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

In terms of BID 18 – "Public disclosures for banking institutions" the maturity breakdown of a banking institution's whole credit portfolio should be disclosed. This disclosure, for Capricorn Group, is detailed below:

	Contractual discounted cash flows						
Group	Carrying value N$'000	Call to 1 month N$'000	1 – 3 months N$'000	3 – 12 months N$'000	1 – 5 years N$'000	Over 5 years N$'000	Total N$'000
As at 30 June 2016							
ASSETS							
Cash and balances with the central bank	–	1,169,170	–	–	–	–	1,169,170
Financial assets designated at fair value through profit or loss	–	570,061	568,320	1,174,960	37,593	57,262	2,408,196
Investment securities	–	133,998	–	–	–	–	133,998
Due from other banks	–	1,006,602	–	–	–	–	1,006,602
Gross loans and advances to customers	–	4,413,683	350,940	624,584	4,964,204	16,471,899	26,825,310
Other assets	–	260,312	–	–	65	164	260,541
Non-financial instruments	757,123	–	–	–	–	–	757,123
Impairment	(227,287)	–	–	–	–	–	(227,287)
Total assets	529,836	7,553,826	919,260	1,799,544	5,001,862	16,529,325	32,333,653
LIABILITIES							
Due to other banks	–	447,129	–	–	–	–	447,129
Other borrowings	–	–	–	–	756,892	407,159	1,164,051
Debt securities in issue	–	2,747	22,831	471,725	1,537,042	181,000	2,215,345
Deposits	–	13,167,016	2,590,622	5,896,060	2,069,912	518	23,724,128
Other liabilities	–	472,871	705	–	5,294	–	478,870
Non-financial instruments	30,091	–	–	–	–	–	30,091
Total liabilities	30,091	14,089,763	2,614,158	6,367,785	4,369,140	588,677	28,059,614
Net liquidity gap	499,745	(6,535,937)	(1,694,898)	(4,568,241)	632,722	15,940,648	4,274,039
Cumulative liquidity gap	499,745	(6,036,192)	(7,731,090)	(12,299,331)	(11,666,609)	4,274,039	

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

	Contractual discounted cash flows						
Group	**Carrying value N$'000**	**Call to 1 month N$'000**	**1 – 3 months N$'000**	**3 – 12 months N$'000**	**1 – 5 years N$'000**	**Over 5 years N$'000**	**Total N$'000**
As at 30 June 2015							
ASSETS							
Cash and balances with the central bank	–	619,907	–	–	–	–	619,907
Financial assets designated at fair value through profit or loss	–	435,494	562,664	1,558,089	17,966	13,248	2,587,461
Investment securities	–	100,533	–	–	–	–	100,533
Due from other banks	–	740,321	–	–	–	–	740,321
Gross loans and advances to customers	–	3,709,109	239,278	847,232	4,802,705	14,219,444	23,817,768
Other assets	–	316,324	–	977	–	–	317,301
Non-financial instruments	621,448	–	–	–	–	–	621,448
Impairment	(195,897)	–	–	–	–	–	(195,897)
Total assets	425,551	5,921,688	801,942	2,406,298	4,820,671	14,232,692	28,608,842
LIABILITIES							
Due to other banks	–	130,151	–	–	–	–	130,151
Debt securities in issue	–	2,359	23,820	253,133	1,981,900	200,000	2,461,212
Deposits	–	12,509,725	2,409,106	5,547,368	1,521,667	6,132	21,993,998
Other liabilities	–	343,555	481	482	514	193	345,225
Non-financial instruments	34,883	–	–	–	–	–	34,883
Total liabilities	34,883	12,985,790	2,433,407	5,800,983	3,504,081	206,325	24,965,469
Net liquidity gap	390,668	(7,064,102)	(1,631,465)	(3,394,685)	1,316,590	14,026,367	3,643,373
Cumulative liquidity gap	390,668	(6,673,434)	(8,304,899)	(11,699,584)	(10,382,994)	3,643,373	

The table above represents the group's maturity mismatch between assets and liabilities based on contractual maturities, which represents a worst-case scenario and is therefore not representative of business as usual. Policies and procedures are in place to mitigate liquidity risk, which is detailed in the narrative above, as well as the risk and compliance report. Due to the composition of the liquidity market in Namibia, a negative maturity mismatch between assets and liabilities is an industry norm.

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities

(a) Fair value estimation

The group is presumed to be a going concern and the fair value methodology is therefore appropriate. Fair value is the current price to purchase an asset or to transfer a liability. Such a transaction is characterised by an arm's length and orderly transaction in a free market (neither party is compelled to act), between hypothetical willing, able and well-informed market participants. In addition, the fair value methodology is utilised to accurately reflect the current market conditions and the appropriate market price of such a transaction on the reporting date.

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives, trading and available-for-sale securities) is based on quoted market prices at the reporting date. The active market should be characterised by sufficient supply and demand by market participants, supported by adequate frequency and volumes to accurately approximate the true market price of such a transaction on an ongoing basis. The quoted market price used for financial assets held by the group is the price within the current bid-ask price, which is the most representative of fair value.

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques to approximate the fair value. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. These valuation techniques include quoted market prices or dealer quotes for similar instruments in active and inactive markets, and discounted cash flow valuation techniques.

(i) Cash and balances with the central bank

Due to its short-term nature, the carrying amount approximates the fair value of these financial assets.

(ii) Derivative financial instruments (included in other assets / liabilities)

Derivative financial instruments are classified as fair value through profit or loss using valuation techniques supported by observable market prices or rates (exchange traded). Over-the-counter transactions are also measured at fair value based on the following valuation techniques:

- Forward contracts are valued based on the daily mark-to-market value of the forward contract. The market rates are obtained from the Thompson Reuters foreign currency rate platform. Spot foreign currency transactions not yet matured are marked-to-market based on end of trading day quoted Thompson Reuters market rates.
- Interest rate swaps are valued by discounting the expected future fixed and floating interest rate cash flow streams with the applicable South African money market yield curves. The future fixed rate cash flows are based on the terms of the contractual agreements, while the floating rate cash flows are approximated using the estimated forward rate yield curve in line with contractual agreements.
- Option contract values are determined using the Black-Scholes pricing model, utilising real-time market data on the required inputs.

(iii) Financial assets designated at fair value through profit or loss

Treasury bills

Treasury bills are designated at fair value through profit or loss based on the discounted valuation technique using quoted market prices and rates.

Government stock

Government stock and other bonds guaranteed by either the Namibian or South African governments are designated at fair value based on the discounted valuation technique using quoted market prices. The Bond Exchange of South Africa bond pricing model is utilised to determine the fair value.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

(a) Fair value estimation (continued)

(iii) Financial assets designated at fair value through profit or loss (continued)

Unit trust investments

The fair value of unit trust investments is determined with reference to the daily published market prices.

Money market investments

For money market investments, the carrying value approximates its fair value.

Other debt securities

Repo investments

Repo investments are designated at fair value using discounted valuation techniques and available dealer quotes for similar instruments.

Corporate bonds

Corporate bonds guaranteed by the respective corporates are designated at fair value based on the discounted valuation technique using quoted market prices.

(iv) Investment securities

Listed

For listed investment securities, the fair value is derived by using stock market prices, adjusted for any restrictions on its tradeability.

(v) Due to and from other banks

Amounts due to and from other banks include interbank placements. The carrying amount of overnight deposits represents its fair value, as it is short term and callable on demand.

(vi) Loans and advances to customers

The loans and advances to customers are recognised at amortised cost. The fair value is determined for disclosure purposes by discounting the future expected cash flows using observable market inputs, such as the prime rate, as appropriate. For short maturity loans and advances, the carrying value approximates the fair value. Unobservable market inputs are developed using the best information available that market participants would use when pricing the loan. The credit risk will be approximated by the carrying values of defaulted and impaired accounts. Refer to note 3.5(b) for the disclosure of the fair value of loans and advances.

(vii) Other assets and liabilities

The nominal values less impairment of other assets and liabilities are assumed to approximate their fair value, due to the short-term nature of these assets and liabilities.

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

(a) Fair value estimation (continued)

(viii) Other borrowings

Other borrowings are recognised at amortised cost. The fair value is determined for disclosure purposes by discounting the future expected cash flows using observable market inputs, such as the JIBAR money market rate, as appropriate. Refer to note 3.5(b) for the disclosure of the fair value of other borrowings.

(ix) Debt securities in issue

Financial instruments included in this category include senior debt, callable bonds and preference shares issued. The fair value of issued debt securities for disclosure purposes is estimated by discounting the future contractual cash flows at the available market interest rate. Quoted prices for similar instruments are utilised in the event that active prices are not available. The fair values of these instruments were N$2.2 billion (2015: N$2.5 billion), refer to note 3.5(b). The fair value of the issued preference shares approximates the carrying value, due to the floating rate nature of the instruments. Refer to note 26.

(x) Deposits

The carrying amount approximates the fair value of these financial liabilities, except for promissory notes and replica notes. The fair value of promissory notes and replica notes for disclosure purposes is estimated by discounting the future contractual cash flows at the available market interest rate. Quoted prices for similar instruments are utilised in the event that active prices are not available. The fair value of these instruments is N$610.1 million (2015: N$433.1 million), refer to note 3.5(b).

(xi) Financial instruments not recorded on the statement of financial position

The estimated fair values of the financial instruments not recorded on the statement of financial position are based on market prices for similar facilities. When this information is not available, fair value is estimated using discounted cash flow analysis.

(b) Fair value hierarchy

IFRS specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter derivative contracts, traded loans and issued structured debt. The sources of input parameters like JIBAR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The group considers relevant and observable market prices in its valuations where possible.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

Group	Level 1 N$'000	Level 2 N$'000	Level 3 N$'000	Total N$'000
As at 30 June 2016				
Financial assets measured at fair value				
Financial assets designated at fair value through profit or loss	229,677	2,178,519	–	2,408,196
Treasury bills	–	2,051,859	–	2,051,859
Government stock	–	94,855	–	94,855
Unit trust investments	–	22,565	–	22,565
Money market investments	229,677	–	–	229,677
Other instruments	–	9,240	–	9,240
Financial assets at fair value through profit or loss				
Derivative financial instruments (included in other assets)	–	229	–	229
Available-for-sale financial assets				
Investment securities – listed	133,998	–	–	133,998
	363,675	2,178,748	–	2,542,423
Financial assets for which the fair value is disclosed				
Loans and advances to customers	–	–	26,996,930	26,996,930
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments (included in other liabilities)	–	6,069	–	6,069
Financial liabilities for which the fair value is disclosed				
Other borrowings	–	–	1,207,090	1,207,090
Debt securities in issue	–	–	2,193,067	2,193,067
Five-year callable bonds	–	–	180,607	180,607
Senior debt – unsecured	–	–	1,987,318	1,987,318
Preference shares (floating rate note)	–	–	25,142	25,142
Deposits	–	–	610,061	610,061
Promissory notes	–	–	490,152	490,152
Replica notes	–	–	119,909	119,909
	–	–	4,010,218	4,010,218

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

Group	Level 1 N$'000	Level 2 N$'000	Level 3 N$'000	Total N$'000
As at 30 June 2015				
Financial assets measured at fair value				
Financial assets designated at fair value through profit or loss	215,224	2,372,237	–	2,587,461
Treasury bills	–	2,120,868	–	2,120,868
Government stock	–	17,966	–	17,966
Unit trust investments	–	19,232	–	19,232
Money market investments	215,224	–	–	215,224
Other instruments	–	214,171	–	214,171
Financial assets at fair value through profit or loss				
Derivative financial instruments (included in other assets)	–	977	–	977
Available-for-sale financial assets				
Investment securities – listed	100,533	–	–	100,533
	315,757	2,373,214	–	2,688,971
Financial assets for which the fair value is disclosed				
Loans and advances to customers	–	–	24,284,793	24,284,793
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments (included in other liabilities)	–	1,731	–	1,731
Financial liabilities for which the fair value is disclosed				
Debt securities in issue	–	–	2,457,404	2,457,404
Five-year callable bonds	–	–	216,933	216,933
Senior debt – unsecured	–	–	2,089,502	2,089,502
Preference shares (floating rate note)	–	–	150,969	150,969
Deposits	–	–	433,073	433,073
Promissory notes	–	–	312,745	312,745
Replica notes	–	–	120,328	120,328
	–	–	2,890,477	2,890,477

No transfers between level 1, level 2 or level 3 fair value measurements occurred during the year under review.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

(c) Sensitivity analysis

The sensitivity analysis performed below is for financial instruments for which the fair value is disclosed. Sensitivity analysis performed on financial instruments recognised at fair value is included in note 3.3.4.

	Group	
	2016 N$'000	**2015 N$'000**
The following is a sensitivity analysis showing the increase / (decrease) in the fair value of loans and advances had the following changes arisen on the significant inputs:		
100 basis points increase in discount rate	**(873,442)**	(790,455)
100 basis points decrease in discount rate	**943,648**	856,732
100 basis points increase in earnings rate	**173,334**	162,371
100 basis points decrease in earnings rate	**(181,775)**	(161,387)
1 month increase in term to maturity	**(32,255)**	(44,595)
1 month decrease in term to maturity	**31,043**	48,374
The following is a sensitivity analysis showing the increase / (decrease) in the fair value of other borrowings had the following changes arisen on the significant inputs:		
100 basis points increase in discount rate	**48,936**	–
100 basis points decrease in discount rate	**(22,098)**	–
100 basis points increase in JIBAR rate	**(25,007)**	–
100 basis points decrease in JIBAR rate	**53,639**	–
The following is a sensitivity analysis showing the increase / (decrease) in the fair value of debt securities had the following changes arisen on the significant inputs:		
100 basis points increase in discount rate	**(41,225)**	(60,786)
100 basis points decrease in discount rate	**42,408**	62,999
100 basis points increase in coupon rate	**43,858**	63,741
100 basis points decrease in coupon rate	**(43,858)**	(63,741)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

(c) Sensitivity analysis (continued)

	Group	
	2016 N$'000	**2015 N$'000**
The following is a sensitivity analysis showing the increase / (decrease) in the fair value of promissory notes had the following changes arisen on the significant inputs:		
100 basis points increase in discount rate	**(3,267)**	(2,249)
100 basis points decrease in discount rate	**3,317**	4,601
The following is a sensitivity analysis showing the increase / (decrease) in the fair value of replica notes had the following changes arisen on the significant inputs:		
100 basis points increase in discount rate	**(1,775)**	(2,734)
100 basis points decrease in discount rate	**1,809**	2,811
100 basis points increase in coupon rate	**2,030**	2,988
100 basis points decrease in coupon rate	**(2,030)**	(2,988)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

(d) Details of level 2 and level 3 fair value instruments

	Valuation technique	Types of valuation inputs	Valuation inputs (ranges) 2016	2015
Financial assets measured at fair value				
Financial assets designated at fair value through profit or loss				
Treasury bills	Income approach*	Note 1	5.8% – 8.8%	5.4% – 7.4%
Government stock	Income approach*	Note 1	8.7% – 9.9%	7.9% – 9.9%
Unit trust investments	Market approach**	Note 4	Note 4	Note 4
Other debt securities				
– Repo investments	Income approach*	Note 1	–	6.7% – 7.5%
– Corporate bonds	Income approach*	Note 1	10.3%	10.0%
– OTC currency options	Income approach*	Note 1	€18.6 – 16.1 US$16.5 – 14.5	€13.3 – 14.4 US$11.0 – 11.2
Financial assets at fair value through profit or loss				
Derivative financial instruments	Income approach*	Note 1	6.0% – 7.8%	5.3% – 10.3%
Financial assets for which the fair value is disclosed				
Loans and advances to customers	Income approach*			
– Discount rate		Note 1	10.75%	10.25%
– Earnings rate		Note 2	6.3% – 19.0%	5.7% – 18.2%
– Term to maturity		Note 3	3 – 360 mth	3 – 360 mth
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	Income approach*	Note 1	6.0% – 7.8%	5.3% – 10.3%
Financial liabilities for which the fair value is disclosed				
Other borrowings	Income approach*	Note 1	7.0% – 8.6%	–
Debt securities in issue				
Five-year callable bonds	Income approach*	Note 1	10.2%	8.0%
Senior debt – unsecured	Income approach*	Note 1	8.3% – 9.6%	7.0% – 9.1%
Deposits				
Promissory notes	Income approach*	Note 1	7.5% – 8.7%	6.5% – 7.3%
Replica notes	Income approach*	Note 1	7.9% – 8.4%	7.8% – 8.4%

For the relationship of observable inputs to fair value refer to note 3.3.4 for items measured at fair value and note 3.5(c) for items disclosed at fair value.

* *Present value of expected future cash flows.*
** *The fair value is determined with reference to the daily published market prices.*
Note 1: Observable interest rates and yield curves observable at commonly quoted intervals.
Note 2: Contractual interest rates per transaction observable on the banking system.
Note 3: Contractual maturities per transaction observable on the banking system.
Note 4: Valuations are performed per fund based on the net asset value of the underlying assets.

3. FINANCIAL RISK MANAGEMENT (continued)

3.6 Capital management

The group's objectives when managing capital, which is a broader concept than the "equity" on the face of the statement of financial position, are to:

- comply with the capital requirements set by the regulators of the banking markets where the entities within the group operate;
- safeguard the group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- maintain a strong capital base to support the development of its business.

Capital management for the banking group

The Bank of Namibia requires each bank or banking group to maintain the following capital adequacy ratios:

- Tier 1 capital to total assets, as reported in the statutory return, at a minimum of 6%, referred to as the leverage capital ratio;
- Tier 1 capital to risk-weighted assets at a minimum of 7%, referred to as Tier 1 risk-based capital ratio; and
- Total regulatory capital to risk-weighted assets at a minimum of 10%, referred to as total risk-based capital ratio.

The group's regulatory capital is divided into three tiers:

- Tier 1 capital: share capital (net of any book values of the treasury shares, if any), non-controlling interest arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital;
- Tier 2 capital: qualifying subordinated loan capital and collective impairment allowances; and
- Tier 3 capital: includes short-term subordinated debt that may be used only to cover a portion of the banking institution's capital charges for market risk.

The Bank of Namibia has adopted a standardised approach to Basel II, with risk-weighted assets being measured at three different levels: operational risk, market risk and credit risk.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.6 Capital management (continued)

During 2012, the Bank of Namibia introduced BID 24 – "Consolidated supervision", which denotes consolidation rules only for the purposes of computing regulatory minimum capital requirements. These rules do not impact accounting consolidation of banking groups, which is done in accordance with IFRS. Although regulatory consolidation may track the accounting consolidation, it is not identical because of a different approach that is prescribed or required for treatment of certain types of transactions and / or subsidiaries. According to the statutory framework, the group entities are treated as follows in the Capricorn Group:

Subsidiaries	Consolidated supervision approach	Accounting consolidation approach
Bank Windhoek Ltd	Full consolidation	Full consolidation
Namib Bou (Pty) Ltd	Deduction approach	Full consolidation
Welwitschia Insurance Brokers (Pty) Ltd	Deduction approach	Full consolidation
Capricorn Unit Trust Management Company Ltd	Deduction approach	Full consolidation
Capricorn Asset Management (Pty) Ltd	Deduction approach	Full consolidation

Associates	Consolidated supervision approach	Accounting consolidation approach
Sanlam Namibia Holdings (Pty) Ltd	Deduction approach	Equity-accounted associates
Santam Namibia Ltd	Deduction approach	Equity-accounted associates

Deduction approach means deductions of 50 percent of the cost of investment in the affiliate is made from Tier 1 capital and 50 percent from Tier 2 capital.

3. FINANCIAL RISK MANAGEMENT (continued)

3.6 Capital management (continued)

The table below summarises the composition of regulatory capital and the ratios of Bank Windhoek Ltd and the Capricorn Group for the years ended 30 June, at both bank solo and consolidated supervision level. During these two years, the individual entities within the group complied with all externally imposed capital requirements to which they are subjected.

	Bank Windhoek Ltd		Capricorn Group	
	2016 N$'000	2015 N$'000	2016 N$'000	2015 N$'000
Tier 1 capital				
Share capital and premium	485,000	485,000	532,206	539,866
General banking reserves	2,764,277	2,297,316	2,764,277	2,297,316
Retained earnings	58,030	49,479	771,552	638,889
Subtotal	3,307,307	2,831,795	4,068,035	3,476,071
Deduct: 50% investments in group entities				
Goodwill	–	–	(91,763)	(91,763)
50% investments in deconsolidated financial subsidiaries, significant minority and majority insurance entities and significant commercial entities	–	–	(141,651)	(131,300)
Net total Tier 1 capital	3,307,307	2,831,795	3,834,621	3,253,008
Tier 2 capital				
Subordinated debt	187,545	207,714	212,687	358,683
Five-year callable bonds	187,545	207,714	187,545	207,714
Preference shares	–	–	25,142	150,969
Portfolio impairment	294,082	262,386	294,082	262,386
Subtotal	481,627	470,100	506,769	621,069
Deduct: 50% investments in group entities				
50% investments in deconsolidated financial subsidiaries, significant minority and majority insurance entities and significant commercial entities	–	–	(121,491)	(121,491)
Net total Tier 2 capital	481,627	470,100	385,278	499,578
Total regulatory capital	3,788,934	3,301,895	4,219,899	3,752,586
Risk-weighted assets:				
Operational risk	2,559,160	2,187,522	2,590,443	2,210,548
Credit risk	23,697,880	21,310,920	23,691,985	21,313,265
Market risk	481,527	235,057	481,527	235,057
Total risk-weighted assets	26,738,567	23,733,499	26,763,955	23,758,870
The increase in risk-weighted assets during the year is mainly attributable to the increase in credit risk, which relates to the growth in loans and advances.				
Capital adequacy ratios:				
Leverage capital ratio	10.4%	10.1%	12.6%	12.1%
Tier 1 risk-based capital ratio	12.4%	11.9%	14.3%	13.7%
Total risk-based capital ratio	14.2%	13.9%	15.8%	15.8%

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.6 Capital management (continued)

In addition to the above minimum capital requirements, the Bank of Namibia requires the bank to perform an internal capital adequacy and assessment process (ICAAP) in terms of Pillar II of Basel II, which has been documented and approved by the board. The process results in:

- the identification of all significant risk exposures to the banking group;
- the quantification of risk appetites for the major risks identified; and
- control measures to mitigate the major risks.

Based on the ICAAP assessment performed on 30 November 2015, which includes a capital projection for the next five years, it is envisaged that the bank will be able to maintain its capital ratios and will not require additional capital.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans and advances

Estimates in assessing the portfolio impairment are dependent on the analysis of historical data relating to PD, emergence period and LGD. Specific impairment is triggered for individual non-performing loans and special mention accounts. Non-performing loans comprise loans due and unpaid for longer than 90 days.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to notes 2.4 and 3.2.5 for more information on assumptions and judgements applied when determining the impairment of loans and advances.

(b) Fair value of financial instruments

The fair value of financial instruments requires the use of estimates and judgements. Refer to note 3.5 for methodology and assumptions applied.

(c) Post-employment benefits

The present value of the severance pay liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of the liability. The assumptions used in determining the net cost include the discount rate. The group determined this discount rate based on the yield of South African government bonds. Other key assumptions are based on generally accepted demographic tables. Refer to note 30.

(d) Share-based payments

For share-based payment transactions among group entities, in its separate or group financial statements, the entity receiving the goods or services shall measure the goods or services received as either an equity-settled or a cash-settled share-based payment transaction by assessing:

- the nature of the awards granted; and
- its own rights and obligations.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

(d) Share-based payments (continued)

The amount recognised by the entity receiving the goods or services may differ from the amount recognised by the consolidated group or by another group entity settling the share-based payment transaction.

The entity receiving the goods or services shall measure the goods or services received as an equity-settled share-based payment transaction when:

- the awards granted are its own equity instruments; or
- the entity has no obligation to settle the share-based payment transaction.

In terms of the share scheme arrangements, the awards granted are Capricorn Group shares, thus the share schemes are treated as equity-settled.

IFRS 2 requires an entity to measure the fair value of the employee services received by reference to the fair value of the equity instruments granted. This fair value depends on a number of factors that are determined on an actuarial basis, at grant date, using a number of assumptions. Any changes in these assumptions will impact the expense and share-based compensation reserve created at grant date. For assumptions made in the valuation of share-based payments refer to note 33.

(e) Impairment of goodwill

The recoverable amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. The recoverable amount of the CGU has been determined based on value-in-use calculations, being the net present value of the discounted cash flows of the CGU. Refer to note 22.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

5. NET INTEREST INCOME

	Group	
	2016 N$'000	2015 N$'000
Interest and similar income		
Amortised cost		
Loans and advances	2,759,664	2,259,485
Cash and short-term funds	34,977	57,449
Fair value		
Financial assets designated at fair value through profit or loss	168,603	108,305
Treasury bills	164,895	96,775
Government stock and other investments	3,708	11,530
Total interest and similar income	2,963,244	2,425,239
Interest and similar expenses		
Amortised cost		
Demand deposits	224,763	228,533
Term and notice deposits	313,018	219,126
Negotiable certificates of deposits	411,832	354,159
Cheque deposits	190,635	141,718
Debt securities in issue	189,112	153,802
Savings deposits	39,284	25,526
Deposits from banks and financial institutions	7,412	8,446
Other	129,046	26,968
Total interest and similar expenses	1,505,102	1,158,278
Net interest income	1,458,142	1,266,961

6. IMPAIRMENT CHARGES ON LOANS AND ADVANCES

Increase in specific impairment (note 17)	54,241	55,270
Increase in portfolio impairment (note 17)	11,734	6,923
Amounts recovered during the year	(5,196)	(3,888)
	60,779	58,305

7. NON-INTEREST INCOME

7.1 Fee and commission income

Transaction and related fees	578,624	537,099
Commissions	21,773	19,973
Other	6,843	7,264
	607,240	564,336

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

7. NON-INTEREST INCOME (continued)

	Group 2016 N$'000	Group 2015 N$'000	Company 2016 N$'000	Company 2015 N$'000
7.2 Net trading income				
Net foreign exchange gains and losses from trading assets	**139,277**	90,395		
Net gain from financial instruments designated at fair value through profit or loss	**3,399**	5,599		
	142,676	95,994		

Net foreign exchange gains and losses from trading assets includes gains and losses from spot and forward exchange contracts and translation of foreign currency assets and liabilities.

Net gain from financial instruments designated at fair value through profit or loss includes the gains and losses from treasury bills, government stock and derivative financial instruments.

	Group 2016 N$'000	Group 2015 N$'000	Company 2016 N$'000	Company 2015 N$'000
7.3 Other operating income				
Asset management and administration fees	**85,827**	73,166	**–**	–
Commission and insurance-related income	**74,520**	49,816	**21,370**	–
Dividend received – ordinary shares	**2,303**	806	**374,977**	320,220
Dividend received – BW Corporate Funds (deemed interest)	**8,300**	11,395	**8,213**	10,643
Interest received	**1,160**	588	**4,149**	1,087
Profit on sale of property, plant and equipment	**312**	533	**–**	–
Profit on sale of residential units	**12,810**	816	**–**	–
Support services rendered	**11,002**	10,880	**68,665**	55,861
Other	**7,654**	4,268	**243**	117
	203,888	152,268	**477,617**	387,928
Total non-interest income	**953,804**	812,598	**477,617**	387,928

8. STAFF COSTS

	Group 2016 N$'000	Group 2015 N$'000	Company 2016 N$'000	Company 2015 N$'000
Wages and salaries	**582,502**	517,894	**60,563**	48,717
Share-based payment expense	**6,228**	5,000	**1,104**	5,000
Granted to directors	**211**	356	**211**	356
Granted to employees	**6,017**	4,644	**893**	4,644
Staff training and transfer costs	**14,776**	10,042	**3,180**	914
Pension costs – defined contribution plan	**38,142**	34,147	**3,984**	3,116
Adjustment to fair value of interest-free loans (note 17)	**2,453**	1,757	**–**	–
Severance pay liability (note 30)	**1,044**	855	**–**	–
	645,145	569,695	**68,831**	57,747

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

9. OPERATING EXPENSES

	Group		Company	
	2016 N$'000	2015 N$'000	2016 N$'000	2015 N$'000
Expenses by nature				
Advertising and marketing	24,839	21,017	961	341
Amortisation of intangible assets (note 22)	5,772	3,124	–	–
Asset management fees	2,506	387	–	–
Association transaction fees	87,056	80,900	–	–
Auditor's remuneration				
– Audit fees	3,917	2,884	442	494
– Fees for other services	1,376	722	419	381
Cash handling	6,555	6,044	–	–
Commission	6,755	5,621	–	–
Directors' emoluments				
– Non-executive directors	7,293	6,627	3,187	2,820
Depreciation of property, plant and equipment (note 23)	38,461	33,185	–	–
Finance costs	5,641	10,800	5,641	10,800
Insurance costs	2,493	2,345	–	–
Intragroup consultancy and management fees	5,644	4,507	138	3,089
Motor vehicle costs	2,084	2,196	–	–
Office expense	3,176	2,765	–	–
Operating lease rentals – immovable property	61,370	56,138	335	2,666
Parking and ATM rental	3,897	3,261	–	–
Professional services	75,244	79,949	12,677	9,189
Repairs and maintenance	26,477	20,772	–	–
Security expenses	10,641	9,403	–	–
Staff costs (note 8)	645,145	569,695	68,831	57,747
Stamp duty	13,677	12,097	–	–
Stationery and printing	15,044	13,854	180	142
Sub-agents' commission	956	797	–	–
Subscription fees	8,685	7,951	124	140
Technology costs	50,068	35,844	531	47
Telephone, postage and courier costs	13,502	12,922	55	53
Travel	7,918	5,072	3,195	1,195
Valuation fees	6,053	5,678	–	–
Water and electricity	17,011	14,816	–	–
Other expenses	20,897	10,858	1,521	1,117
	1,180,153	1,042,231	98,237	90,221

Research and development costs of N$0.5 million (2015: N$0.6 million) are included in operating expenses above.

10. SHARE OF ASSOCIATES' RESULTS AFTER TAX

The following represents Capricorn Group's share of the associates' after tax results:

	Group		Company	
	2016 N$'000	2015 N$'000	2016 N$'000	2015 N$'000
Profit before taxation	114,061	107,203		
Taxation	(16,938)	(20,044)		
	97,123	87,159		

11. INCOME TAX EXPENSE

11.1 *Normal tax*

	Group 2016 N$'000	Group 2015 N$'000	Company 2016 N$'000	Company 2015 N$'000
Current tax	350,709	337,368	2,873	–
– current year	350,709	337,368	2,873	–
– prior year	–	–	–	–
Deferred tax	13,785	(23,228)	–	2,816
– current year	13,785	(15,423)	–	2,816
– prior year	–	(7,805)	–	–
Total normal tax	364,494	314,140	2,873	2,816

11.2 *Tax rate reconciliation*

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:

	Group 2016 N$'000	Group 2015 N$'000	Company 2016 N$'000	Company 2015 N$'000
Profit before tax and share of associates' results after tax	1,172,419	979,983	379,380	297,707
Tax at the applicable tax rate of 32% (2015: 33%)	375,174	323,394	121,402	98,243
Dividends received	(13,201)	(10,307)	(122,621)	(109,185)
Other non-taxable income	(4,068)	(5,594)	(7)	(13)
Non-deductible expenses	7,551	7,987	5,202	7,306
Prior year adjustment	–	(7,805)	–	–
Change in tax rate	337	–	196	–
Unrecognised deferred tax asset	740	6,465	740	6,465
Utilised tax loss previously not recognised	(2,039)	–	(2,039)	–
Income tax expense	364,494	314,140	2,873	2,816
Effective tax rate	31.1%	32.1%	0.8%	0.9%

As per the *Government Gazette* of 30 December 2015, the tax rate decreased from 33% to 32%, for all years of assessments starting on or after 1 January 2015. Therefore the lower tax rate is effective for the entity in the current financial year. Deferred tax has been recognised at the expected future rate of 32%.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

12. EARNINGS AND HEADLINE EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the group's profit for the year by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the company and held as treasury shares.

Headline earnings per share is calculated by dividing the group's profit for the year after excluding identifiable re-measurements, net of tax, by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the company and held as treasury shares.

Group	2016 Gross N$'000	2016 Taxation N$'000	2016 Net N$'000
Earnings			
Profit for the year			**905,048**
Headline adjustments	**230**	**100**	**330**
Re-measurement included in equity-accounted earnings	**542**	**–**	**542**
Profit on sale of property, plant and equipment	**(312)**	**100**	**(212)**
Headline earnings			**905,378**

	2015 Gross N$'000	2015 Taxation N$'000	2015 Net N$'000
Earnings			
Profit for the year			753,002
Headline adjustments	40	176	216
Re-measurement included in equity-accounted earnings	573	–	573
Profit on sale of property, plant and equipment	(533)	176	(357)
Headline earnings			753,218

	2016	2015
Number of ordinary shares in issue at year-end ('000) (note 31)	**499,534**	500,523
Weighted average number of ordinary shares in issue during the year ('000)	**499,534**	500,523
Adjusted for effect of future share-based payment transactions	**1,158**	1,943
Diluted weighted average number of ordinary shares in issue during the year ('000)	**500,692**	502,466
Earnings per ordinary share (cents)		
Basic	**181.2**	150.4
Fully diluted	**180.8**	149.9
Headline earnings per ordinary share (cents)		
Basic	181.2	150.5
Fully diluted	180.8	149.9

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

13. CASH AND BALANCES WITH THE CENTRAL BANK

	Group		Company	
	2016 N$'000	2015 N$'000	2016 N$'000	2015 N$'000
Cash balances	**288,202**	219,559	**155,057**	132,603
Balances with the central bank other than mandatory reserve deposits	**617,370**	155,529	**–**	–
Included in cash and cash equivalents	**905,572**	375,088	**155,057**	132,603
Mandatory reserve deposits with the central bank	**263,598**	244,819	**–**	–
	1,169,170	619,907	**155,057**	132,603

Mandatory reserve deposits are not available for use in the group's day-to-day operations. Balances with the central bank other than mandatory deposits are interest sensitive. Cash balances as well as mandatory reserve deposits with the central bank are non-interest-bearing.

14. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group 2016 N$'000	Group 2015 N$'000	Company 2016 N$'000	Company 2015 N$'000
Treasury bills	**2,051,859**	2,120,868	**–**	–
Government stock	**94,855**	17,966	**–**	–
Unit trust investments	**22,565**	19,232	**–**	–
Money market investments	**229,677**	215,224	**141,547**	194,035
Other debt securities	**9,240**	214,171	**–**	–
	2,408,196	2,587,461	**141,547**	194,035
Current	**2,313,341**	2,556,247	**141,547**	194,035
Non-current	**94,855**	31,214	**–**	–
	2,408,196	2,587,461	**141,547**	194,035

All instruments are unlisted.

The following represents the amortised cost of instruments where this differs from the fair value:

	Group 2016 N$'000	Group 2015 N$'000	Company 2016 N$'000	Company 2015 N$'000
Treasury bills	**2,071,613**	2,119,835		
Government stock	**93,832**	18,979		

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

14. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Financial assets at fair value through profit or loss are presented within "operating activities" in the statement of cash flows. Changes in fair values of financial assets at fair value through profit or loss are recorded in "net gain / (loss) from financial instruments designated at fair value through profit or loss" in the statement of comprehensive income (note 7.2).

Treasury bills and government stock are securities issued by the Namibian Treasury for a term of 3 months, 6 months, a year or longer. Treasury bills and government stock with a maturity of less than 90 days from the reporting date, as well as money market investments, are included in cash and cash equivalents for the purposes of the cash flow statement. Refer to note 39.

The above-mentioned debt securities are managed and their performance evaluated on a fair value basis in accordance with a documented risk management strategy. Treasury bills with a nominal value of N$320 million (2015: N$265 million) are available at the Bank of Namibia for collateral should the need arise. At year-end, there were no treasury bills utilised for security purposes (2015: nil) at the Bank of Namibia. At 30 June 2016, no treasury bills have been collateralised under a sale-and-buyback agreement (2015: N$204 million).

Refer to note 3.5 for fair value methodology used.

15. INVESTMENT SECURITIES

	Group	
	2016 N$'000	**2015 N$'000**
Available-for-sale		
Investment securities – listed	**133,998**	100,533
The movement during the year is summarised as follows:		
Opening balance	**100,533**	72,047
Change in value of available-for-sale financial assets	**33,465**	28,486
Closing balance	**133,998**	100,533
Current	**133,998**	100,533

Listed ordinary shares are held as follows:
6,583,247 shares in Weatherley International Plc, 13,035 shares in Dundee Precious Metals Inc, 28,308 shares in China Africa Resources Plc and 30,304 shares in Visa Inc.

Refer to note 3.5 for fair value methodology used.

16. DUE FROM OTHER BANKS

	2016 N$'000	2015 N$'000
Placement with other banks	**1,006,602**	740,321

Placements with other banks are callable on demand and are therefore current assets.

17. LOANS AND ADVANCES TO CUSTOMERS

	Group 2016 N$'000	Group 2015 N$'000
Overdrafts	**4,156,406**	3,672,578
Term loans	**4,977,056**	4,549,801
Mortgages	**13,738,202**	11,850,416
– Residential mortgages	**7,620,471**	6,385,539
– Commercial mortgages	**6,117,731**	5,464,877
Instalment finance	**3,435,162**	3,348,452
Preference shares	**518,484**	396,521
Gross loans and advances	**26,825,310**	23,817,768
Less impairment		
Specific impairment	**(147,829)**	(128,174)
Portfolio impairment	**(79,458)**	(67,723)
	26,598,023	23,621,871
Notional value of loans and advances	**26,862,726**	23,853,667
Interest in suspense (contractual interest suspended on non-performing loans)	**(37,416)**	(35,899)
Gross loans and advances	**26,825,310**	23,817,768

Movement in impairment on loans and advances to customers is as follows for the group:

	Overdrafts N$'000	Term loans N$'000	Mortgages N$'000	Instalment finance N$'000	Total N$'000
30 June 2016					
Balance at the beginning of the year	**63,404**	**62,071**	**35,031**	**35,391**	**195,897**
Specific impairment	**49,158**	**35,910**	**16,829**	**26,277**	**128,174**
Portfolio impairment	**14,246**	**26,161**	**18,202**	**9,114**	**67,723**
Loan impairment – specific	**22,840**	**3,726**	**6,188**	**21,487**	**54,241**
Loan impairment – portfolio	**3,459**	**(1,878)**	**3,625**	**6,528**	**11,734**
Amounts written off during the year as uncollectable	**(12,273)**	**(16,358)**	**(599)**	**(5,355)**	**(34,585)**
Balance at the end of the year	**77,430**	**47,561**	**44,245**	**58,051**	**227,287**
Specific impairment	**59,725**	**23,278**	**22,417**	**42,409**	**147,829**
Portfolio impairment	**17,705**	**24,283**	**21,828**	**15,642**	**79,458**
30 June 2015					
Balance at the beginning of the year	32,968	52,402	27,092	35,225	147,687
Specific impairment	19,681	29,972	10,074	27,160	86,887
Portfolio impairment	13,287	22,430	17,018	8,065	60,800
Loan impairment – specific	30,665	13,374	7,172	4,059	55,270
Loan impairment – portfolio	959	3,731	1,184	1,049	6,923
Amounts written off during the year as uncollectable	(1,188)	(7,436)	(417)	(4,942)	(13,983)
Balance at the end of the year	63,404	62,071	35,031	35,391	195,897
Specific impairment	49,158	35,910	16,829	26,277	128,174
Portfolio impairment	14,246	26,161	18,202	9,114	67,723

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

17. LOANS AND ADVANCES TO CUSTOMERS (continued)

	Group 2016		Group 2015	
	N$'000	%	N$'000	%
Specific and portfolio impairment by geographical area				
Namibia	**227,287**		195,897	
The following is a sensitivity analysis showing the increase / (decrease) in the portfolio impairment had the following changes arisen on the significant inputs:				
100 basis points increase in PD	**4,445**		4,191	
100 basis points decrease in PD	**(4,445)**		(4,191)	
1,000 basis points increase in LGD	**1,312**		1,250	
1,000 basis points decrease in LGD	**(1,312)**		(1,250)	
Maturity analysis of loans and advances to customers for the group were as follows:				
Repayable within 1 month	**4,413,683**	**16.5**	3,709,109	15.6
Repayable after 1 month but within 3 months	**350,940**	**1.3**	239,278	1.0
Repayable after 3 months but within 6 months	**343,323**	**1.3**	583,967	2.5
Repayable after 6 months but within 12 months	**281,261**	**1.0**	263,265	1.1
Repayable after 12 months	**21,436,103**	**79.9**	19,022,149	79.8
	26,825,310	**100.0**	23,817,768	100.0

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

17. LOANS AND ADVANCES TO CUSTOMERS (continued)

	Group 2016 N$'000	Group 2015 N$'000
The loans and advances to customers include instalment finance receivables which are analysed as follows:		
Repayable within 1 year	**156,561**	136,306
Repayable after 1 year but within 5 years	**4,223,242**	4,250,570
Repayable after 5 years	**39,710**	257,373
Gross investment in instalment finances	**4,419,513**	4,644,249
Unearned future finance income on instalment finances	**(1,072,068)**	(1,371,314)
Net investment in instalment finances	**3,347,445**	3,272,935

The group has not sold or pledged any advances to third parties.

Under the terms of lease agreements, no contingent rentals are payable. These agreements relate to motor vehicles and equipment.

The group has a share purchase scheme in which it has a mechanism to allow employees to purchase shares in Capricorn Group at a value that approximates fair value at the date of sale of shares. The shares are sold via an interest-free loan provided by Bank Windhoek. Such loans are full recourse loans and, if not repaid, Bank Windhoek may legally take possession of the employees' personal assets. Thus the share purchase scheme does not fall within the scope of IFRS 2 "Share-based payment". The benefit employees receive relating to the interest-free element of the loan is taken directly to the employee loan accounts.

Included in term loans is an amount of N$34.7 million (2015: N$25.0 million) relating to the above-mentioned scheme.

	Group 2016 N$'000	Group 2015 N$'000
The movements on these staff loans were as follows:		
Opening balance	**25,035**	27,572
New loans advanced during the year	**13,793**	8,742
Loans redeemed during the year	**(5,248)**	(12,086)
Staff costs (adjustment to fair value)	**(2,453)**	(1,757)
Effective interest charged	**3,529**	2,564
Closing balance	**34,656**	25,035

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

18. OTHER ASSETS

	Group 2016 N$'000	Group 2015 N$'000	Company 2016 N$'000	Company 2015 N$'000
Insurance fund asset	55,085	52,871	–	–
Accounts receivable	73,989	25,577	15,649	19,586
Clearing, settlement and internal accounts	131,238	241,286	–	–
Prepayments	26,944	15,289	–	114
Other taxes	9,332	946	221	221
Inventory	43,713	31,121	–	–
Derivative financial instruments – interest rate swaps	229	977	–	–
	340,530	368,067	15,870	19,921
Current	241,503	284,947	15,870	19,921
Non-current	99,027	83,120	–	–
	340,530	368,067	15,870	19,921

Interest rate swaps are commitments to exchange one set of cash flows for another and result in an economic exchange of a fixed rate for a floating rate or vice versa. No exchange of principal takes place.

The notional principal amount of the outstanding interest rate swap contracts, included above and in other liabilities (note 28), at 30 June 2016 was N$412.0 million (2015: N$225.0 million).

Refer to note 3.2.5 for credit quality disclosure of financial instruments included in other assets.

19. INVESTMENT IN SUBSIDIARIES

The following information relates to the company's financial interests in its unlisted subsidiaries:

	Number of shares held '000	Issued ordinary share capital and premium N$'000	Effective holding 2016 %	Effective holding 2015 %
Subsidiaries of Capricorn Group				
Bank Windhoek Ltd	4,920	485,000	100	100
Welwitschia Insurance Brokers (Pty) Ltd	0.31	1,300	100	100
Namib Bou (Pty) Ltd	600	23,000	100	100
Capricorn Asset Management (Pty) Ltd	55	1,001	100	100
Capricorn Unit Trust Management Company Ltd	2,000	2,000	100	100
Subsidiaries of Bank Windhoek Ltd				
Bank Windhoek Nominees (Pty) Ltd	0.1	0.1	100	100
BW Finance (Pty) Ltd	0.1	0.1	100	100
Bank Windhoek Properties (Pty) Ltd	1	1	100	100

19. INVESTMENT IN SUBSIDIARIES (continued)

	Aggregate income of subsidiaries (after tax)		Total investment	
	2016 N$'000	2015 N$'000	2016 N$'000	2015 N$'000
Financial details of subsidiaries				
Subsidiaries of Capricorn Group				
Bank Windhoek Ltd (consolidated)	**762,904**	655,602	**520,440**	520,440
Welwitschia Insurance Brokers (Pty) Ltd	**6,006**	5,760	**8,847**	8,847
Namib Bou (Pty) Ltd	**8,518**	116	**23,000**	23,000
Capricorn Asset Management (Pty) Ltd	**24,683**	18,657	**127,954**	127,954
Capricorn Unit Trust Management Company Ltd	**13,900**	13,672	**64,750**	64,750
	816,011	693,807	**744,991**	744,991
Non-current			**744,991**	744,991
Subsidiaries of Bank Windhoek Ltd				
BW Finance (Pty) Ltd	**12,601**	10,636	**0.1**	0.1
Bank Windhoek Properties (Pty) Ltd	**5,627**	10,736	**19,799**	19,799
	18,228	21,372	**19,799**	19,799

All subsidiaries are registered in Namibia (the country of incorporation or registration is also their principal place of business), and have 30 June financial year-ends.

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The parent company further does not have any shareholdings in the preference shares of subsidiary undertakings included in the group.

Refer to note 40 for related-party transactions and balances with subsidiaries.

20. INVESTMENT IN ASSOCIATES

Set out below are the associates of the group as at 30 June. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the group.

	Number of shares held '000	Issued ordinary share capital and premium N$'000	Effective holding 2016 and 2015 %	Shares at cost 2016 N$'000	Shares at cost 2015 N$'000
Associates of Capricorn Group					
Santam Namibia Ltd	**1,230**	**8,307**	**28.0**	**62,905**	62,905
Sanlam Namibia Holdings (Pty) Ltd	**30**	**160,665**	**29.5**	**47,290**	47,290
				110,195	110,195

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

20. INVESTMENT IN ASSOCIATES (continued)

	Number of shares held '000	Issued ordinary share capital and premium N$'000	Effective holding 2016 and 2015 %	Shares at cost 2016 N$'000	Shares at cost 2015 N$'000
Associate of Capricorn Asset Management					
Capricorn Asset Management (Botswana) (Pty) Ltd	0.7	2,465	35	853	853
				853	853

20.1 Santam Namibia Ltd

The company holds a 28% interest in Santam Namibia Ltd, a short-term insurance company.

	Group 2016 N$'000	Group 2015 N$'000	Company 2016 N$'000	Company 2015 N$'000
Carrying value of investment in associate				
Investment at cost	62,905	62,905	62,905	62,905
Share of current year's retained income	34,558	36,752		
– Profit before tax	48,659	53,592		
– Current and deferred tax	(14,101)	(16,840)		
Dividends paid	(23,063)	(27,395)		
Post-acquisition retained income at the beginning of the year	49,537	40,180		
	123,937	112,442	62,905	62,905
Directors' valuation	285,323	238,447	285,323	238,447

Technique used for directors' valuation:

Santam Namibia Ltd is not listed on a stock exchange and therefore has no quoted market price available for its shares. The directors' valuation was determined by using its price to book value.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

20. INVESTMENT IN ASSOCIATES (continued)

		Group 2016 N$'000	Group 2015 N$'000	Company 2016 N$'000	Company 2015 N$'000
20.1	***Santam Namibia Ltd (continued)***				
	Summarised financial information (unaudited)				
	Revenue (net earned premium)	**819,806**	766,672		
	Profit after tax	**123,621**	131,470		
	Total comprehensive income	**123,621**	131,470		
	Non-current assets	**354,553**	301,302		
	Technical assets	**417,212**	286,793		
	Current assets	**423,922**	314,977		
	Non-current liabilities	**(16,884)**	(34,892)		
	Technical liabilities	**(585,949)**	(441,604)		
	Current liabilities	**(233,071)**	(107,910)		
	Net asset value	**359,783**	318,666		
	Interest in associate (28%)	**100,577**	89,082		
	Goodwill on acquisition	**23,360**	23,360		
	Carrying value of investment in associate	**123,937**	112,442		
20.2	***Sanlam Namibia Holdings (Pty) Ltd***				
	The company holds an effective 29.5% in Sanlam Namibia Holdings (Pty) Ltd, a Namibian company providing a variety of financial services.				
	Carrying value of investment in associate				
	Investment at cost	**47,290**	47,290	**47,290**	47,290
	Share of current year's retained income	**62,501**	50,438		
	– Profit before tax	**65,338**	53,642		
	– Current and deferred tax	**(2,837)**	(3,204)		
	Dividends paid	**(58,920)**	(36,824)		
	Post-acquisition retained income at the beginning of the year	**72,603**	58,989		
		123,474	119,893	**47,290**	47,290
	Directors' valuation	**381,242**	342,797	**381,242**	342,797

Technique used for directors' valuation:

Sanlam Namibia Holdings (Pty) Ltd is a private company and there is no quoted market price available for its shares. The directors' valuation was determined by using the price to embedded value basis of valuation.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

20. INVESTMENT IN ASSOCIATES (continued)

	Group		Company	
	2016 N$'000	2015 N$'000	2016 N$'000	2015 N$'000
20.2 Sanlam Namibia Holdings (Pty) Ltd (continued)				
Summarised financial information (unaudited)				
Revenue (net insurance income)	**763,953**	709,233		
Profit after tax	**212,161**	171,211		
Total comprehensive income	**212,161**	171,211		
Non-current assets	**3,746,400**	3,334,871		
Current assets	**174,155**	150,222		
Non-current liabilities	**(3,335,189)**	(2,896,291)		
Current liabilities	**(229,398)**	(244,983)		
Net asset value	**355,968**	343,819		
Interest in associate (29.5%)	**104,868**	101,287		
Goodwill on acquisition	**18,606**	18,606		
Carrying value of investment in associate	**123,474**	119,893		

The associates above have December financial year-ends and are incorporated in Namibia. The country of incorporation / registration is also their principal place of business. The results of associates are equity accounted. Management accounts as at 30 June 2016 have been used for equity accounting the share of results of associates for their half year ended 30 June 2016.

20.3 Capricorn Asset Management (Botswana) (Pty) Ltd (CAMB)

Capricorn Asset Management (Pty) Ltd, a wholly owned subsidiary of the Capricorn Group, acquired a 35% interest in CAMB during the prior year, an asset management company incorporated in Botswana.

20. INVESTMENT IN ASSOCIATES (continued)

	Group 2016 N$'000	Group 2015 N$'000	Company 2016 N$'000	Company 2015 N$'000
20.3 Capricorn Asset Management (Botswana) (Pty) Ltd (CAMB) (continued)				
Carrying value of investment in associate				
Investment at cost	**853**	853	**–**	–
Share of current year's retained profit / (loss)	**64**	(31)		
– Profit / (loss) after tax	64	(31)		
Post-acquisition retained income at the beginning of the year	**(31)**	–		
	886	822	**–**	–
Directors' valuation	**886**	822	**–**	–

Technique used for directors' valuation:
CAMB is not listed on a stock exchange and therefore has no quoted market price available for its shares. The directors' valuation was determined by using its net asset value.

	Group 2016 N$'000	Group 2015 N$'000	Company 2016 N$'000	Company 2015 N$'000
Summarised financial information (unaudited)				
Revenue	**998**	–		
Other income	**467**	754		
Profit / (loss) after tax	**516**	(404)		
Total comprehensive income / (loss)	**516**	(404)		
Non-current assets	**19**	29		
Current assets	**2,918**	2,126		
Current liabilities	**(100)**	(94)		
Net asset value	**2,837**	2,061		

CAMB has a June financial year-end and is incorporated in Botswana. The country of incorporation / registration is also the principal place of business. The results of associates are equity accounted. Unaudited financial statements as at 30 June 2016 have been used for equity accounting the share of results of the associate for the year ended 30 June 2016.

The closing mid-exchange rate of 1.33 (2015: 1.22) has been applied to the conversion of assets and liabilities. An average exchange rate for the year of 1.33 (2015: 1.23) has been applied to the conversion of the share of results of CAMB.

	Group 2016 N$'000	Group 2015 N$'000	Company 2016 N$'000	Company 2015 N$'000
Total investment in associates (non-current)	**248,297**	233,157	**110,195**	110,195

Refer to note 40 for related-party transactions and balances with associates.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

21. INTEREST IN JOINT ARRANGEMENTS

Joint venture

The joint venture was incorporated in Namibia. The country of incorporation or registration is also its principal place of business. The results of the joint venture are equity accounted. Management accounts as at 30 June 2016 have been used for equity accounting the share of results for the year ended 30 June 2016. The value of the group's share in assets, liabilities, income and expenditure is not significant to the group as a whole. These components are therefore not disclosed.

The joint venture listed below has share capital consisting solely of ordinary shares, which are held directly by the group.

The group obtained a 25% interest in Namclear (Pty) Ltd during 2005. According to the joint venture agreement, a unanimous vote from all four shareholders is required to effect a resolution. Namclear (Pty) Ltd has a December year-end.

	Number of shares held '000	Issued ordinary share capital and premium N$'000	Effective 2016 and 2015 %	Shares at cost 2016 N$'000	Shares at cost 2015 N$'000
Namclear (Pty) Ltd	4	4,616	25	1,154	1,154

	Group 2016 N$'000	Group 2015 N$'000
Opening balance	3,694	2,734
The group's share of the profit in the joint venture	1,405	960
Closing balance	5,099	3,694
Non-current	5,099	3,694
Directors' valuation	5,099	3,694

Technique used for directors' valuation:

The directors' valuation was determined by using its net asset value.

	2016	2015
Aggregated summarised financial information of Namclear (Pty) Ltd		
Profit after tax	5,618	3,841
Total comprehensive income	5,618	3,841

Refer to note 40 for related-party transactions and balances with joint ventures.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

22. INTANGIBLE ASSETS

Group	Goodwill N$'000	Purchased software N$'000	Intangible assets in development N$'000	Internally generated software N$'000	Total N$'000
30 June 2016					
Cost					
Cost at 1 July 2015	48,687	64,521	110,855	–	224,063
Transfers	–	–	(147,402)	147,402	–
Additions	–	359	49,293	–	49,652
Cost at 30 June 2016	48,687	64,880	12,746	147,402	273,715
Amortisation					
Amortisation at 1 July 2015	–	(62,055)	(6,843)	–	(68,898)
Charge for the year	–	(623)	–	(5,149)	(5,772)
Amortisation at 30 June 2016	–	(62,678)	(6,843)	(5,149)	(74,670)
Net book value at 30 June 2016	48,687	2,202	5,903	142,253	199,045
30 June 2015					
Cost					
Cost at 1 July 2014	48,687	62,248	49,078	–	160,013
Transfers	–	–	(1,450)	–	(1,450)
Additions	–	2,273	63,227	–	65,500
Cost at 30 June 2015	48,687	64,521	110,855	–	224,063
Amortisation					
Amortisation at 1 July 2014	–	(58,931)	(6,843)	–	(65,774)
Charge for the year	–	(3,124)	–	–	(3,124)
Amortisation at 30 June 2015	–	(62,055)	(6,843)	–	(68,898)
Net book value at 30 June 2015	48,687	2,466	104,012	–	155,165

All intangible assets are held by the group, none by the company and all are classified as non-current assets. No assets were encumbered at 30 June 2016 nor 30 June 2015.

Intangible assets consist of goodwill, computer software, including its related acquisition and development costs and intangible assets in development. The software and development costs are mainly owned by Bank Windhoek Ltd.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

22. INTANGIBLE ASSETS (continued)

Impairment of goodwill

An impairment test was performed on the recoverable amount of goodwill raised in the group. The goodwill comprises of the excess consideration paid for the non-controlling interest acquired in its subsidiaries, Welwitschia Insurance Brokers (Pty) Ltd (WIB) of N$3.2 million and CUTM of N$45.5 million. The impairment test was based on the value in use of the subsidiaries, taking the discounted cash flows into consideration. This indicated that the value of the companies is higher than the cost of shares acquired. Goodwill was therefore not impaired. Management used five-year projected cash flow models, growth rates in line with individual company forecasts and discount rates representing the company's weighted average cost of capital in measuring the impairment losses.

23. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and buildings N$'000	Computer and other equipment N$'000	Vehicles N$'000	Furniture, fittings and other office equipment N$'000	Total N$'000
30 June 2016					
Cost					
Cost at 1 July 2015	50,575	196,131	19,274	150,683	416,663
Additions	35	26,161	5,132	12,000	43,328
Disposals	–	(71,913)	(4,056)	(20,699)	(96,668)
Cost at 30 June 2016	50,610	150,379	20,350	141,984	363,323
Depreciation					
Accumulated depreciation at 1 July 2015	(16,157)	(135,286)	(12,590)	(98,587)	(262,620)
Charge for the year	(1,690)	(21,932)	(2,080)	(12,759)	(38,461)
Depreciation on disposals	–	71,768	3,574	20,669	96,011
Accumulated depreciation at 30 June 2016	(17,847)	(85,450)	(11,096)	(90,677)	(205,070)
Net book value at 30 June 2016	32,763	64,929	9,254	51,307	158,253
30 June 2015					
Cost					
Cost at 1 July 2014	50,209	192,288	17,823	160,255	420,575
Additions	366	38,045	2,851	17,719	58,981
Disposals	–	(34,202)	(1,400)	(27,291)	(62,893)
Cost at 30 June 2015	50,575	196,131	19,274	150,683	416,663
Depreciation					
Accumulated depreciation at 1 July 2014	(14,470)	(152,935)	(11,698)	(111,177)	(290,280)
Charge for the year	(1,687)	(16,497)	(2,263)	(12,738)	(33,185)
Depreciation on disposals	–	34,146	1,371	25,328	60,845
Accumulated depreciation at 30 June 2015	(16,157)	(135,286)	(12,590)	(98,587)	(262,620)
Net book value at 30 June 2015	34,418	60,845	6,684	52,096	154,043

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

23. PROPERTY, PLANT AND EQUIPMENT (continued)

There was no material change in the nature of property, plant and equipment or in the policy regarding its use during the year.

Details regarding the fixed properties as required in terms of Schedule 4 of the Companies Act are available to shareholders at the registered office of the group. This information will be open for inspection in terms of the provisions of section 120 of the Companies Act of Namibia, 28 of 2004. The company does not own any property, plant or equipment.

No assets were encumbered at 30 June 2016 nor 30 June 2015. All property, plant and equipment is classified as non-current assets.

24. DUE TO OTHER BANKS

	Group	
	2016 N$'000	**2015 N$'000**
Current accounts	**447,129**	130,151
	447,129	130,151
Current	**447,129**	130,151

Due to other banks is unsecured with no fixed repayment terms and bears interest at market-related interest rates.

25. OTHER BORROWINGS

Additions	**1,170,000**	–
Accrued interest	**60,238**	–
Coupon repayments	**(66,187)**	–
Balance as at 30 June	**1,164,051**	–
Non-current	**1,164,051**	–

Other borrowings consist of N$920 million and N$250 million long-term funding raised from IFC (International Finance Corporation) and DEG (Deutsche Investitions- und Entwicklungsgesellschaft) respectively. The IFC loan is repayable semi-annually over a 7-year term with quarterly interest repayments. The first capital repayment is due December 2017. Interest on the IFC loans is charged at 3 month JIBAR plus an average spread of 2.95%. The DEG loan is repayable semi-annually over an 8-year term with quarterly interest repayments. The first capital repayment is due March 2020. Interest on the DEG loan is charged at 3 month JIBAR plus a spread of 3.65%.

The group complied with all debt covenant requirements relating to these loans.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

26. DEBT SECURITIES IN ISSUE

	Group		Company	
	2016 N$'000	2015 N$'000	2016 N$'000	2015 N$'000
Balance as at 1 July	**2,461,212**	1,841,287	**150,969**	150,877
Redemptions	**(436,516)**	(202,116)	**(127,395)**	–
Additions	**181,000**	814,014	**–**	–
Effective interest	**194,753**	164,602	**5,641**	10,800
Coupon payments	**(185,104)**	(156,575)	**(4,073)**	(10,708)
Balance as at 30 June	**2,215,345**	2,461,212	**25,142**	150,969
Current	**497,303**	279,312	**–**	150,969
Non-current	**1,718,042**	2,181,900	**25,142**	–
	2,215,345	2,461,212	**25,142**	150,969

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

26. DEBT SECURITIES IN ISSUE (continued)

				Group	
Debt instruments	**Interest rate**	**Maturity date**	**Notes**	**2016 N$'000**	**2015 N$'000**
Five-year callable bonds					
BW20 (tranche 1) fixed rate note	9.38%	16-Aug-20	26.1	–	109,947
BW20 (tranche 2) fixed rate note	9.38%	16-Aug-20	26.1	–	41,658
BW20 (tranche 3) fixed rate note	9.38%	16-Aug-20	26.1	–	56,109
BW25	9.75%	18-Aug-25	26.1	187,545	–
				187,545	207,714
Senior debt – unsecured					
BWFd16 fixed rate note	6.69%	15-Apr-16	26.2	–	101,407
BWJj16 floating rate note	3 mth JIBAR + 110bps	14-Oct-16	26.2	71,236	71,064
BWJd17 floating rate note	3 mth JIBAR + 94bps	25-Apr-17	26.2	101,511	101,295
BWFd19 fixed rate note	9.43%	25-Apr-19	26.2	101,725	101,725
BWZj17 floating rate note	3 mth JIBAR + 155bps	17-Mar-17	26.2	301,019	300,884
BWZj18 floating rate note	3 mth JIBAR + 180bps	19-Nov-18	26.2	606,438	605,601
BWFh17 fixed rate note	8.09%	22-Aug-17	26.2	149,189	149,180
BWFh19 fixed rate note	8.86%	22-Aug-19	26.2	113,481	113,473
BWJh17 floating rate note	3 mth JIBAR + 95bps	22-Aug-17	26.2	45,407	45,349
BWJe18 floating rate note	3 mth JIBAR + 135bps	29-May-18	26.2	33,158	33,121
BWZ18B floating rate note	3 mth JIBAR + 185bps	27-Mar-18	26.2	180,182	180,158
BWZ20A floating rate note	3 mth JIBAR + 215bps	27-Mar-20	26.2	299,312	299,272
				2,002,658	2,102,529
Preference shares (floating rate note)					
7,000 Preference shares – Bank Windhoek Corporate Fund	3 mth JIBAR + 1.3%	1-Dec-15	26.3	–	70,468
5,500 Preference shares – Bank Windhoek Selekt Fund	3 mth JIBAR + 1.3%	1-Dec-15	26.3	–	55,367
2,500 Preference shares – Santam Namibia Ltd	64.5% of prime	1-Dec-18	26.3	25,142	25,134
				25,142	150,969
Total debt securities in issue at the end of the year				2,215,345	2,461,212
Listed debt securities				2,190,203	2,310,243
Unlisted debt securities				25,142	150,969
				2,215,345	2,461,212

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

26. DEBT SECURITIES IN ISSUE (continued)

26.1 Five-year callable bonds

The BW20 tranches 1 – 3 were redeemed on 17 August 2015. The five-year callable bond BW25 was issued on 17 August 2015. The interest is paid semi-annually in February and August of each year. This bond qualifies as Tier 2 capital for the group. BW25 was issued under Bank Windhoek's Medium Term Note Programme, a programme registered with the Johannesburg and Namibian Stock Exchanges.

26.2 Senior debt – unsecured

The senior debt instruments, BWFd16, BWJj16, BWJd17, BWFd19, BWZj17, BWZj18, BWFh17, BWFh19, BWJh17, BWje18, BWZ18B and BWZ20A have been issued on 15 April 2013, 15 April 2013, 25 April 2014, 25 April 2014, 18 March 2014, 19 November 2013, 22 August 2014, 22 August 2014, 22 August 2014, 29 May 2015, 27 March 2015 and 27 March 2015 respectively. The interest is paid quarterly in February, May, August and November of each year for the BWZj18, BWJh17 and BWJe18 and in January, April, July and October each year for the BWJj16 and BWJd17. The interest is paid quarterly in March, June, September and December for BWZj17, BWZ18B and BWZ20A. Coupon payments for the BWFd16 are paid semi-annually on 15 April and 15 October. Coupon payments for the BWFd19 are paid semi-annually on 25 April and 25 October. Coupon payments for the BWFh17 and BWFh19 are paid semi-annually on 22 February and 22 August.

All instruments in issue are under Bank Windhoek's Medium Term Note Programme, a programme registered with the Johannesburg and Namibian Stock Exchanges.

26.3 Preference shares

No new preference shares were issued by the company during the current or prior year.

Debt securities in issue comprise subordinated debt, senior debt and preference shares with a combined nominal value of N$2.2 billion (2015: N$2.4 billion).

27. DEPOSITS

	Group	
	2016 N$'000	**2015 N$'000**
Current accounts	**6,014,557**	5,629,360
Savings accounts	**1,641,186**	1,468,289
Demand deposits	**3,883,260**	4,121,996
Term and notice deposits	**4,501,707**	4,577,459
Negotiable certificates of deposits (NCDs)	**6,176,458**	5,411,896
Other deposits	**1,506,960**	784,998
	23,724,128	21,993,998

	Group			
	2016		**2015**	
	N$'000	**%**	**N$'000**	**%**
Maturity analysis within the customer current, savings, deposit account portfolio for the group was as follows:				
Withdrawable on demand	**12,416,233**	**52.3**	11,573,758	52.6
Maturing within 1 month	**750,783**	**3.2**	935,967	4.3
Maturing after 1 month but within 6 months	**4,340,094**	**18.3**	4,134,395	18.8
Maturing after 6 months but within 12 months	**4,146,588**	**17.5**	3,822,079	17.4
Maturing after 12 months	**2,070,430**	**8.7**	1,527,799	6.9
	23,724,128	**100.0**	21,993,998	100.0

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

28. OTHER LIABILITIES

	Group		Company	
	2016 N$'000	2015 N$'000	2016 N$'000	2015 N$'000
Accounts payable and other accruals	**107,169**	97,016	**24,643**	8,118
Employee liabilities	**157,363**	143,386	**15,013**	12,753
– Leave pay accrual	**43,253**	39,065	**4,125**	3,722
– Provision for performance bonuses	**96,977**	85,424	**10,888**	9,031
– PAYE payable	**6,025**	12,826	**–**	–
– Medical aid payable	**5,626**	5,064	**–**	–
– Pension payable	**5,016**	–	**–**	–
– Other	**466**	1,007	**–**	–
Deferred revenue	**4,709**	4,096	**–**	–
Other taxes	**14,121**	11,425	**2,629**	1,445
Derivative financial instruments – interest rate swaps	**6,069**	1,731	**–**	–
Clearing, settlement and internal accounts	**208,269**	103,092	**–**	–
	497,700	360,746	**42,285**	22,316
Current	**492,406**	360,039	**42,285**	22,316
Non-current	**5,294**	707	**–**	–
	497,700	360,746	**42,285**	22,316

The provision for performance bonuses is payable in September after the financial year-end.

Interest rate swaps are commitments to exchange one set of cash flows for another and result in an economic exchange of a fixed rate for a floating rate or vice versa. No exchange of principal takes place.

The notional principal amount of the outstanding interest rate swap contracts, included above and in other assets (note 18), at 30 June 2016 was N$412.0 million (2015: N$225.0 million).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

29. DEFERRED INCOME TAX

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 32% (2015: 33%).

The movement on the deferred income tax account is as follows:

	Group		Company	
	2016 N$'000	2015 N$'000	2016 N$'000	2015 N$'000
Deferred tax (asset) / liability as at 1 July	**(20,048)**	3,180	–	(2,816)
Prior year adjustment (note 11)	–	(7,805)	–	–
Charge to profit or loss (note 11)	**13,785**	(15,423)	–	2,816
Accelerated tax depreciation and amortisation	**14,142**	1,573	–	–
Loans and receivables	**(2,535)**	(6,558)	–	–
Government stock and other securities	**1,067**	3,512	–	–
Prepaid expenses	**3,739**	(1,023)	–	2,816
Accruals	**(3,990)**	(7,291)	–	–
Loan loss impairment	**(3,080)**	(4,907)	–	–
Change in tax rate	**337**	–	–	–
Other	**4,105**	(729)	–	–
Deferred tax asset as at 30 June	**(6,263)**	(20,048)	–	–
Deferred income tax assets and liabilities are attributable to the following items:				
Deferred income tax liability				
Accelerated tax depreciation and amortisation	**37,932**	23,790	–	–
Loans and receivables	**5,508**	8,043	–	–
Government stock and other securities	**11,912**	10,845	–	–
Prepaid expenses	**8,484**	4,745	–	–
Other temporary differences	**5,243**	266	–	–
	69,079	47,689	–	–
Deferred income tax asset				
Accruals	**44,150**	40,160	–	–
Loan loss impairment	**26,570**	23,490	–	–
Assessed loss	–	2,486	–	–
Derivative financial instruments	**1,869**	249	–	–
Deferred revenue	**1,507**	1,352	–	–
Other temporary differences	**1,246**	–	–	–
	75,342	67,737	–	–
Net deferred income tax asset	**(6,263)**	(20,048)	–	–

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

29. DEFERRED INCOME TAX (continued)

	Group 2016 N$'000	Group 2015 N$'000	Company 2016 N$'000	Company 2015 N$'000
Deferred tax liability				
Current	24,464	15,861	–	–
Non-current	44,615	31,828	–	–
Total	69,079	47,689	–	–
Deferred tax asset				
Current	73,005	65,571	–	–
Non-current	2,337	2,166	–	–
Total	75,342	67,737	–	–

30. POST-EMPLOYMENT BENEFITS

	Group 2016 N$'000	Group 2015 N$'000
30.1 Severance pay liability		
A valuation was performed for 30 June 2016 by an independent actuary on the group's liability with respect to severance pay. The benefit is not funded.		
The amount recognised in the consolidated statement of financial position is determined as follows:		
Present value of unfunded obligation (non-current)	9,460	8,416
The movement in the severance pay obligation over the year is as follows:		
As at 1 July	8,416	7,561
Current service costs	172	242
Interest cost	872	613
As at 30 June	9,460	8,416
The amounts recognised in the consolidated statement of comprehensive income are as follows:		
Current service costs	172	242
Interest cost	872	613
	1,044	855
The principal actuarial assumptions used were as follows:	%	%
Discount rate	8.6	9.8
Inflation rate	6.4	5.4
Salary increases	7.4	8.4
The following sensitivity of the overall liability to changes in principal assumption is:		
Salary increase 1% lower per annum	8,924	7,132
Salary increase 1% higher per annum	10,053	8,037

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

30. POST-EMPLOYMENT BENEFITS (continued)

30.2 Medical aid scheme

The group has no liability in respect of post-retirement medical aid contributions.

30.3 Pension schemes

All full-time permanent employees are members of the CIH Group Retirement Fund, a defined-contribution plan, which has been registered in Namibia in accordance with the requirements of the Pension Funds Act, 24 of 1956. The fund is governed by the Pension Funds Act, which requires a statutory actuarial valuation every 3 years. The latest statutory actuarial valuation was carried out on 31 March 2015, and in the actuary's opinion, the fund was in a sound financial position at that date. The valuation confirmed that the value of the assets in the fund exceeded the value of the actuarially determined liabilities.

The group currently contributes 12% of basic salary to the fund, while the members contribute 7.5%. Post-employment benefits are classified as non-current liabilities.

31. SHARE CAPITAL AND PREMIUM

	Group		Company	
	2016 N$'000	**2015 N$'000**	**2016 N$'000**	**2015 N$'000**
Authorised share capital				
600,000,000 ordinary shares of 2.5 cents each	**15,000**	15,000	**15,000**	15,000
1,000,000 redeemable preference shares of 1 cent each	**10**	10	**10**	10
Issued ordinary share capital				
Balance as at 1 July	**12,632**	12,632	**12,632**	12,632
Shares issued during the year	**–**	–	**–**	–
Balance as at 30 June	**12,632**	12,632	**12,632**	12,632
Share premium				
Balance as at 1 July	**527,234**	527,234	**527,234**	527,234
Shares issued during the year	**–**	–	**–**	–
Balance at 30 June	**527,234**	527,234	**527,234**	527,234
Less: Treasury shares	**(27,821)**	(9,816)	**(7,660)**	–
Total ordinary share capital and premium	**512,045**	530,050	**532,206**	539,866
Issued number of ordinary shares reconciliation ('000)				
Issued number of shares at the beginning of the year	**505,280**	505,280	**505,280**	505,280
Shares issued during the year	**–**	–	**–**	–
Issued number of shares at the end of the year	**505,280**	505,280	**505,280**	505,280
Less: Treasury shares	**(5,746)**	(4,757)	**(648)**	–
Total number of ordinary shares issued at year-end	**499,534**	500,523	**504,632**	505,280

31. SHARE CAPITAL AND PREMIUM (continued)

Issued preference share capital

No new preference share capital was issued during the current or prior year. There was a redemption of preference shares in the current year. Refer to note 26. All issued shares are fully paid up.

Unissued shares

All the unissued shares are under the control of the directors in terms of a general authority to allot and issue them on such terms and conditions and at such time as they deem fit. This authority expires at the forthcoming AGM on 1 November 2016, when the authority can be renewed. Refer to the directors' report.

The company's total number of issued ordinary shares at year-end was 505,280,000 (2015: 505,280,000). All issued shares are fully paid up.

32. NET ASSET VALUE PER SHARE

	Group	
	2016	**2015**
Net asset value per ordinary share (cents)		
Net assets (N$'000)	**4,274,039**	3,643,373
Number of ordinary shares in issue at year-end ('000)	**499,534**	500,523
Net asset value per share (cents)	**856**	728

33. SHARE-BASED PAYMENTS

The group operates two equity-settled share-based compensation plans: (1) a share appreciation rights plan and (2) a conditional share plan, under which the entities within the group receive services from employees as consideration for equity instruments (shares) of Capricorn Group (refer to the remuneration report (unaudited) for details of each plan).

The total expense for the share-based compensation plans is N$6.2 million in 2016 (2015: N$5.0 million). Refer to note 8.

Share appreciation rights (SAR)

SAR are granted to directors and to selected employees for no consideration (exercise price of zero). The number of Capricorn Group shares to which each employee is entitled upon the exercise of the SAR will be calculated with reference to the increase in the value of the employer company's share price over the period from grant date to the exercise date. SAR are conditional on the employee completing three years' service after grant date (the vesting period) and subject to the relevant employer company achieving its predetermined performance conditions over the performance period. SAR are exercisable from the vesting date and have a contractual term of five years. The group has no legal or constructive obligation to repurchase or settle the SAR in cash.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

33. SHARE-BASED PAYMENTS (continued)

Details of the number of SAR outstanding are as follows:

	Capricorn Group	Bank Windhoek	Capricorn Asset Management	Capricorn Unit Trust Management	Total
30 June 2016					
Opening balance	**224**	**579**	**64**	**–**	**867**
Granted[1]	**144**	**175**	**45**	**84**	**448**
Forfeitures	**–**	**(141)**	**–**	**–**	**(141)**
Closing balance	**368**	**613**	**109**	**84**	**1,174**

	Capricorn Group	Bank Windhoek	Welwitschia Insurance Brokers	Capricorn Asset Management	Total
30 June 2015					
Opening balance	95	290	24	64	473
Granted[1]	143	313	–	–	456
Forfeitures	(14)	(24)	(24)	–	(62)
Closing balance	224	579	–	64	867

No SAR were exercisable or exercised in 2016.

No SAR expired during the periods covered by the above tables.

SARs outstanding at the end of the year have the following vesting and expiry dates:

Grant date	Vest date	Expiry date	2016	2015
September 2013	September 2016	September 2018	**321**	411
September 2014	September 2017	September 2019	**423**	456
September 2015	September 2018	September 2020	**430**	–
			1,174	867

	2016	2015
The weighted average remaining contractual life of options outstanding at the end of the period	**3.1 years**	3.5 years

The fair value of SAR granted during the year was determined by using the Bermudan Call Option valuation model. The significant inputs into the model are summarised in the table below. Refer to note 8 for the total expense recognised in profit or loss for SAR granted to directors and employees.

[1] *Capricorn Group's equivalent SAR.*

	Capricorn Group	Bank Windhoek	Capricorn Asset Management	Capricorn Unit Trust Management
30 June 2016				
Spot and strike price (N$)	**15.77**	**15.77**	**2,365.91**	**46.48**
Risk-free rate	**8.2%**	**8.2%**	**8.2%**	**8.2%**
Dividend yield	**3.8%**	**3.8%**	**12%**	**12%**
Volatility	**35%**	**35%**	**35%**	**35%**
Membership attrition	**5%**	**5%**	**5%**	**5%**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

33. SHARE-BASED PAYMENTS (continued)

	Capricorn Group	Bank Windhoek	Welwitschia Insurance Brokers	Capricorn Asset Management
30 June 2015				
Spot and strike price (N$)	11.43	11.43	90,141.06	2,132.93
Risk-free rate	7.5%	7.5%	7.5%	7.5%
Dividend yield	3.8%	3.8%	6%	12%
Volatility	35%	35%	35%	35%
Membership attrition	5%	5%	5%	5%

Conditional share plan (CSP)

Capricorn Group shares are granted to directors and to selected employees for no consideration. The allocation of shares is conditional on the employee completing three years' service after grant date (the vesting period). The group has no legal or constructive obligation to repurchase or settle the shares in cash.

Details of the number of shares outstanding are as follows:

	2016 No. of CSPs '000	2015 No. of CSPs '000
Opening balance	**946**	511
Granted[2]	**369**	479
Forfeited	**(67)**	(44)
Closing balance	**1,248**	946

No shares have vested at 30 June 2016.

Outstanding number of CSPs expected to vest as follows:

Grant date	Vest date	2016	2015
September 2013	September 2016	**438**	467
September 2014	September 2017	**452**	479
September 2015	September 2018	**358**	–
		1,248	946

The fair value of shares granted during the year was determined with reference to the listed share price at grant date of N$15.77 (2015: N$11.43) and taking into account a membership attrition of 5% (2015: 5%). Refer to note 8 for the total expense recognised in profit or loss for shares granted to directors and employees.

[2] *Capricorn Group's equivalent CSPs.*

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

34. NON-DISTRIBUTABLE RESERVES

		Group	
		2016 N$'000	2015 N$'000
34.1	***Credit risk reserve***		
	Balance at 1 July	**167,869**	141,737
	Transfer from retained earnings	**17,392**	26,132
	Balance as at 30 June	**185,261**	167,869
	The regulatory credit risk reserve was introduced in order to meet the regulatory requirements for the loan loss portfolio impairment of Bank Windhoek Ltd.		
34.2	***Insurance fund reserve***		
	Balance at 1 July	**28,617**	28,617
	Utilisation of reserve	**(844)**	–
	Balance as at 30 June	**27,773**	28,617
	The insurance reserve was created to fund a portion, net of deferred tax, of the regulatory requirement to hold a certain level of insurance specific for banking risk.		
	Total non-distributable reserves	**213,034**	196,486
35.	**DISTRIBUTABLE RESERVES**		
35.1	***Fair value reserve***		
	Balance as at 1 July	**96,317**	67,831
	Revaluation of available-for-sale equity instruments	**33,465**	28,486
	Balance as at 30 June	**129,782**	96,317
35.2	***General banking reserve***		
	Balance as at 1 July	**2,297,316**	1,906,657
	Transfer from retained earnings	**466,961**	390,659
	Balance as at 30 June	**2,764,277**	2,297,316

The general banking reserve is maintained to fund future expansion.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

35. DISTRIBUTABLE RESERVES (continued)

		Group		Company	
		2016 N$'000	2015 N$'000	2016 N$'000	2015 N$'000
35.3	***Retained earnings***				
	Balance as at 1 July	**516,142**	404,804	**482,047**	414,532
	Profit for the year	**905,048**	753,002	**376,507**	294,891
	Transfer to reserves	**(484,353)**	(416,791)	**–**	–
	Profit on sale of treasury shares	**–**	764	**–**	–
	Dividends paid	**(295,226)**	(225,637)	**(298,115)**	(227,376)
	Balance as at 30 June	**641,611**	516,142	**560,439**	482,047
35.4	***Share-based compensation reserve***				
	Balance as at 1 July	**7,062**	12,077	**7,062**	2,062
	Share-based payment charges recognised in equity	**6,228**	5,000	**1,104**	5,000
	Transfer from reserve	**–**	(10,015)	**–**	–
	Balance as at 30 June	**13,290**	7,062	**8,166**	7,062

The share-based compensation reserve is used to recognise:

- the grant date fair value of SAR issued to employees but not exercised (refer to note 33); and
- the grant date fair value of conditional shares issued to employees (refer to note 33).

The transfer from reserves of N$10.0 million in the prior year relates to a change in accounting treatment of the interest benefit to employees associated with the share purchase scheme. This is now recognised under IAS 19, "Employee benefits" instead of IFRS 2 "Share-based payment".

	2016 N$'000	2015 N$'000	2016 N$'000	2015 N$'000
Total distributable reserves	3,548,960	2,916,837	568,605	489,109

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

36. DIVIDENDS PER SHARE

	Group 2016 N$'000	Group 2015 N$'000	Company 2016 N$'000	Company 2015 N$'000
Normal dividends amounting to N$298.1 million (2015: N$227.4 million) were declared and paid by the company during the year under review. The normal dividends declared represent interim and final dividends per share as follows:				
Declared during the financial year				
Interim dividend per share (cents)			**30**	24
Declared after the financial year				
Final dividend per share (cents)*			**36**	29
Total dividend per share (cents)			**66**	53
Dividends declared during the year	**295,226**	225,637	**298,115**	227,376
Dividends paid during the year	**(295,226)**	(225,637)	**(298,115)**	(227,376)
Dividends payable at year-end	**–**	–	**–**	–

* *Refer also to events subsequent to year-end in the directors' report for details of the final dividend declared after year-end.*

37. STATEMENT OF CASH FLOWS DISCLOSURE INFORMATION

	Group 2016 N$'000	Group 2015 N$'000	Company 2016 N$'000	Company 2015 N$'000
37.1 Receipts from customers				
Interest receipts	**2,969,135**	2,426,758	**–**	–
Commission and fee receipts	**607,240**	564,336	**–**	–
Other income received	**344,986**	235,512	**89,769**	55,574
	3,921,361	3,226,606	**89,769**	55,574
37.2 Payments to customers, suppliers and employees				
Interest payments	**(1,181,303)**	(966,708)	**–**	–
Cash payments to employees and suppliers	**(1,134,057)**	(1,001,824)	**(91,492)**	(74,421)
	(2,315,360)	(1,968,532)	**(91,492)**	(74,421)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

37. STATEMENT OF CASH FLOWS DISCLOSURE INFORMATION (continued)

		Group		Company	
		2016 N$'000	2015 N$'000	2016 N$'000	2015 N$'000
37.3	***Cash generated from / (utilised in) operations***				
	Profit before income tax	**1,269,542**	1,067,142	**379,380**	297,707
	Dividends received	**(10,603)**	(12,201)	**(383,190)**	(330,863)
	Adjusted for non-cash items:				
	– Effective interest on debt securities	**194,753**	164,602	**5,641**	10,800
	– Effective interest on deposits	**68,808**	26,968	**–**	–
	– Accrued interest on other borrowings	**60,238**	–	**–**	–
	– Interest receivable	**(3,374)**	(3,163)	**(4,149)**	(1,087)
	– Adjustment to fair value of financial instruments	**31,921**	6,593	**–**	–
	– Amortisation of intangible assets	**5,772**	3,124	**–**	–
	– Depreciation of property, plant and equipment	**38,461**	33,185	**–**	–
	– Share-based payment expense	**6,228**	5,000	**1,104**	5,000
	– Profit on sale of residential units	**(12,810)**	(816)	**–**	–
	– Profit on sale of property, plant and equipment	**(312)**	(533)	**–**	–
	– Impairment charges on loans and advances	**60,779**	58,305	**–**	–
	– Provision for post-employment benefits	**1,044**	855	**–**	–
	– Share of associates' results after tax	**(97,123)**	(87,159)	**–**	–
	– Share of joint arrangements' results after tax	**(1,405)**	(960)	**–**	–
	– Other	**(5,918)**	(2,868)	**(509)**	(404)
		1,606,001	1,258,074	**(1,723)**	(18,847)
	In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:				
	Net book value (note 23)	**657**	2,048	**–**	–
	Profit on sale of property, plant and equipment (note 7.3)	**312**	533	**–**	–
	Proceeds from sale of property, plant and equipment	**969**	2,581	**–**	–
37.4	***Income taxes paid***				
	Amounts (payable) / receivable as at 1 July	**(6,371)**	13,414	**515**	35
	Current tax charged to profit or loss	**(350,709)**	(337,368)	**(2,873)**	–
	Taxes not yet received	**509**	404	**509**	404
	Amounts (receivable) / payable as at 30 June	**(58,376)**	6,371	**(578)**	(515)
	Income taxes paid during the year	**(414,947)**	(317,179)	**(2,427)**	(76)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

38. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

		Group	
		2016 N$'000	**2015 N$'000**
38.1	***Capital commitments***		
	Authorised but not contracted for:		
	Property, plant and equipment	**107,338**	76,656
	Intangible assets	**132,458**	154,567
	Contracted for but not yet incurred:		
	For completion of residential units – Ondangwa phase 2	**7,652**	82,371
	For completion of residential units – Ondangwa phase 3	**9,598**	–
		257,046	313,594
	Capital commitments for Ondangwa phase 2 and 3 relate to the development of residential units by Namib Bou (Pty) Ltd.		
	Funds to meet these commitments will be provided from group resources.		
38.2	***Letters of credit***	**634,568**	731,813
38.3	***Liabilities under guarantees***	**1,450,178**	1,610,392
	Guarantees mainly consist of endorsements and performance guarantees.		
38.4	***Loan commitments***	**2,094,090**	1,929,720
38.5	***Operating lease commitments***		
	Office premises		
	– Not later than 1 year	**42,392**	32,770
	– Later than 1 year but not later than 5 years	**74,651**	60,538
	– Later than 5 years	**1,069**	–
		118,112	93,308

Notice periods on operating lease contracts vary between 1 to 3 months (2015: 1 to 3 months), operating lease contracts are not fixed and escalation clauses range between 7% and 12% (2015: 7% and 12%).

The group has various operating lease agreements, of which the majority contain renewal options. The lease terms do not contain restrictions on the group's activities concerning further leasing, distribution of dividends or obtaining additional funding.

38.6 Pending litigations

There are a few pending legal or potential claims against the group, the outcome of which cannot at present be foreseen. These claims are not regarded as material, either on an individual or group basis.

39. CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following balances with less than 90 days maturity:

	Group		Company	
	2016 N$'000	2015 N$'000	2016 N$'000	2015 N$'000
Cash and balances with the central banks – excluding mandatory reserve (note 13)	**905,572**	375,088	**155,057**	132,603
Treasury bills and government stock with a maturity of less than 90 days	**876,898**	758,837	**–**	–
Money market investments (note 14)	**229,677**	215,224	**141,547**	194,035
Placement with other banks (note 16)	**1,006,602**	740,321	**–**	–
Borrowings from other banks (note 24)	**(447,129)**	(130,151)	**–**	–
	2,571,620	1,959,319	**296,604**	326,638

40. RELATED PARTIES

In accordance with IAS 24, the group defines related parties as:

(i) the parent company;
(ii) subsidiaries;
(iii) associate companies;
(iv) entities that have significant influence over the group. If an investor has significant influence over the group, that investor and its subsidiaries are related parties of the group. The group is the Capricorn Group and its subsidiaries;
(v) post-retirement benefit funds (pension fund);
(vi) key management personnel being the Capricorn Group board of directors and the group's executive management team;
(vii) close family members of key management personnel (individual's spouse / domestic partner and children; domestic partner's children and dependants of individual or domestic partner); and
(viii) entities controlled, jointly controlled or significantly influenced by any individual referred to in (vi) and (vii).

Capricorn Group is listed on the NSX and is 55% (2015: 55%) owned by Capricorn Investment Holdings Ltd, its non-listed ultimate holding company, which is incorporated in Namibia.

Details of subsidiaries, associates and joint arrangements are disclosed in notes 19, 20 and 21.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. No impairment has been recognised with respect to loans granted to key management personnel during the year under review (2015: nil).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

40. RELATED PARTIES (continued)

During the year, the group and company transacted with the following related parties:

Entity	Relationship	Type of transaction
Capricorn Investment Holdings Ltd	Parent company	Support services Banking relationship
Capricorn Investment Holdings (Botswana) Ltd	Fellow subsidiary	Banking relationship
Bank Gaborone Ltd	Fellow subsidiary	Support services Banking relationship
Capricorn Asset Management (Pty) Ltd	Subsidiary	Support services Banking relationship
Capricorn Capital (Pty) Ltd	Fellow subsidiary	Support services Banking relationship
Capricorn Unit Trust Management Company Ltd	Subsidiary	Banking relationship
Cavmont Capital Holdings Zambia Plc	Fellow associate	Support services Banking relationship
Cavmont Bank Ltd	Fellow associate	Support services Banking relationship
Nam-mic Financial Services Holdings (Pty) Ltd	Fellow associate	Support services Banking relationship
Nam-mic Financial Solutions (Pty) Ltd	Fellow associate	Support services Banking relationship
Nam-mic Payment Solutions (Pty) Ltd	Fellow associate	Support services Banking relationship
Bank Windhoek Ltd	Subsidiary	Support services Banking relationship
Namib Bou (Pty) Ltd	Subsidiary	Support services Banking relationship
Welwitschia Insurance Brokers (Pty) Ltd	Subsidiary	Commission Support services Banking relationship
Santam Namibia Ltd	Associate	Dividends Banking relationship Insurance relationship
Sanlam Namibia Holdings (Pty) Ltd	Associate	Dividends Banking relationship Insurance relationship
Capricorn Asset Management (Botswana) (Pty) Ltd	Associate	Banking relationship Support services
Bank Windhoek Properties (Pty) Ltd	Subsidiary	Rental
BW Finance (Pty) Ltd	Subsidiary	Support services Banking relationship
Namclear (Pty) Ltd	Joint venture	Technology services
BWH Group Employee Share Ownership Trust	SPE	Banking relationship
BWH Group Employee Share Benefit Trust	SPE	Banking relationship

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

40. RELATED PARTIES (continued)

	Group 2016 N$'000	Group 2015 N$'000	Company 2016 N$'000	Company 2015 N$'000
The volumes of related-party transactions and outstanding balances at year-end are as follows:				
40.1 *Trade and other receivables from related parties*				
Parent company	**11,163**	1,020	**1,018**	233
Fellow subsidiaries	**399**	1,349	**–**	33
Subsidiaries	**–**	–	**3,962**	19,075
Other indirect related parties	**11,571**	23,191	**10,684**	220
40.2 *Loans and advances to related parties*				
Other indirect related parties	**46,478**	318	**–**	–
Key management personnel	**26,911**	19,156	**–**	–
40.3 *Cash and cash equivalents held by related parties*				
Subsidiaries	**–**	–	**155,053**	132,599
40.4 *Trade and other payables to related parties*				
Parent company	**8,628**	9,640	**–**	2
Subsidiaries	**–**	–	**19,785**	5,453
Other indirect related parties	**2,135**	768	**984**	–
40.5 *Deposits from related parties*				
Parent company	**90,074**	47,023	**–**	–
Fellow subsidiaries	**79,572**	5,618	**–**	–
Other indirect related parties	**171,431**	131,003	**–**	–
Key management personnel	**8,789**	10,580	**–**	–
40.6 *Expenses paid to related parties*				
Subsidiaries	**–**	–	**138**	3,090
Other indirect related parties	**9,656**	8,007	**–**	–
40.7 *Interest and similar expenses paid to related parties*				
Parent company	**9,588**	3,552	**–**	–
Fellow subsidiaries	**696**	50	**–**	–
Other indirect related parties	**8,282**	5,817	**–**	–
Key management personnel	**525**	174	**–**	–

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

40. RELATED PARTIES (continued)

		Group		Company	
		2016 N$'000	**2015 N$'000**	**2016 N$'000**	**2015 N$'000**
40.8	***Income received from related-party transactions***				
	Parent company	**8,137**	7,348	**7,368**	6,300
	Fellow subsidiaries	**3,427**	3,349	**3,390**	2,598
	Subsidiaries	**–**	–	**57,663**	45,179
	Other indirect related parties	**52,910**	32,060	**21,578**	1,983
	Income received from related-party transactions mainly relates to insurance-related income and inter-group charges.				
40.9	***Interest and similar income received from related parties***				
	Parent company	**9**	24	**–**	–
	Fellow subsidiaries	**1**	1	**–**	–
	Subsidiaries	**–**	–	**4,203**	889
	Other indirect related parties	**2,102**	1,978	**–**	–
	Key management personnel	**79**	1,547	**–**	–
40.10	***Dividends received from related parties***				
	Subsidiaries	**–**	–	**292,994**	256,000
	Other indirect related parties	**81,983**	64,219	**81,983**	64,219
40.11	***Compensation paid to key management***				
40.11.1	*Executive management team*				
	Salaries and bonuses	**39,448**	29,220	**8,271**	8,336
	Contribution to defined-contribution medical schemes	**1,506**	1,085	**334**	271
	Contribution to defined-contribution pension schemes	**1,637**	2,085	**245**	741
	Share-based payment charges	**1,698**	1,576	**672**	519
	Other allowances	**5,155**	4,423	**818**	1,137
		49,444	38,389	**10,340**	11,004

Compensation paid to key management comprises remuneration and other employee benefits to the executive management team, which excludes executive directors' emoluments.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

40. RELATED PARTIES (continued)

40.11 Compensation paid to key management (continued)

40.11.2 Non-executive directors' emoluments

	Directors' fees		
	Paid by company N$'000	Paid by subsidiary N$'000	Total N$'000
30 June 2016			
Non-executive directors			
Brandt, J C (Chairman)	**780**	**1,203**	**1,983**
Swanepoel, J J (Vice-chairman)	**379**	**817**	**1,196**
Black, K B	**227**	**100**	**327**
Nakazibwe-Sekandi, G	**269**	**209**	**478**
Du Toit, F J	**567**	**286**	**853**
Shaetonhodi, J M	**154**	**52**	**206**
Shikongo, M K	**136**	**157**	**293**
Schimming-Chase, E M	**106**	**–**	**106**
Knouwds, E	**146**	**86**	**232**
Fourie, D G	**345**	**313**	**658**
Total	**3,109**	**3,223**	**6,332**
30 June 2015			
Non-executive directors			
Brandt, J C (Chairman)	720	1,148	1,868
Swanepoel, J J (Vice-chairman)	372	767	1,139
Black, K B	158	123	281
Nakazibwe-Sekandi, G	262	198	460
Du Toit, F J	519	249	768
Shaetonhodi, J M	146	–	146
Shikongo, M K	146	198	344
Schimming-Chase, E M	107	–	107
Knouwds, E	316	255	571
Total	2,746	2,938	5,684

Directors' fees consist of a quarterly retainer and a fee for attendance of meetings. No fees relating to other services (e.g. commission) have been paid during the 2016 and 2015 financial years.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

40. RELATED PARTIES (continued)

40.11 Compensation paid to key management (continued)

40.11.3 Executive directors' emoluments

	Salary and bonuses N$'000	Pension and medical contributions N$'000	Share-based payment benefit N$'000	Other allowances and fringe benefits N$'000	Total N$'000
30 June 2016					
Executive directors					
De Vries, C P	**5,478**	**89**	**211**	**485**	**6,263**
Prinsloo, M J	**3,004**	**205**	**–**	**893**	**4,102**
	8,482	**294**	**211**	**1,378**	**10,365**
30 June 2015					
Executive directors					
De Vries, C P	4,657	85	356	485	5,583
Prinsloo, M J	2,466	210	–	624	3,300
	7,123	295	356	1,109	8,883

In addition to the above, M J Prinsloo received emoluments of N$1.0 million (2015: N$1.0 million) paid by Capricorn Investment Holdings Ltd, the holding company of Capricorn Group.

The executive directors did not receive any other fees for services as directors or any emoluments other than that disclosed.

40.11.4 Number of SAR and conditional shares awarded to directors

	Opening balance 1 July 2014 '000	Granted during the year '000	Closing balance 30 June 2015 '000	Granted during the year '000	Closing balance 30 June 2016 '000
Share appreciation rights					
Executive director					
De Vries, C P					
– Capricorn Group shares	36	79	115	–	**115**
Conditional shares awarded					
Executive director					
De Vries, C P					
– Capricorn Group shares	10	17	27	–	**27**

All CSP and SAR have a vesting period of three years. Refer to the table on the next page for further details relating to SAR.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

40. RELATED PARTIES (continued)

40.11 Compensation paid to key management (continued)

40.11.4 Number of share appreciation rights and conditional shares awarded to directors (continued)

	Share appreciation rights			
	Strike price (N$)		Expiry date	
	2016 grants	2015 grants	2016 grants	2015 grants
Executive director				
De Vries, C P				
– Capricorn Group shares	n / a	11.43	n / a	2019

No shares were forfeited during the current or prior year.

		2016			2015	
		Number of ordinary shares acquired / (sold) during the current year	Number of ordinary shares at year-end	% held	Number of ordinary shares at year-end	% held
40.12	***Directors' holdings in Capricorn Group shares***					
	Direct holding:					
	Brandt, J C (Chairman)	(1,250,000)	3,290,700	0.65	4,540,700	0.90
	Swanepoel, J J (Vice-chairman)	(700)	–	0.00	700	0.00
	Black, K B	–	38,636	0.01	38,636	0.01
	Nakazibwe-Sekandi, G	(170,000)	1,870,784	0.37	2,040,784	0.40
	Shaetonhodi, J M	–	70,300	0.01	70,300	0.01
	Shikongo, M K	–	82,000	0.02	82,000	0.02
	Prinsloo, M J	325,600	1,869,084	0.37	1,543,484	0.31
	Schimming-Chase, E M	–	1,200	0.00	1,200	0.00
	Knouwds, E	–	13,000	0.00	13,000	0.00
	Du Toit, F J	–	13,500	0.00	13,500	0.00
	De Vries, C P	266,667	467,367	0.09	200,700	0.04
	Fourie, D G	–	35,700	0.01	35,700	0.01
	Indirect holding:					
	Brandt, J C (Chairman)			34.83		35.27
	Swanepoel, J J (Vice-chairman)			7.43		7.49
	Prinsloo, M J			0.13		0.33
	De Vries, C P			0.07		0.12

All shareholdings are beneficial.

No change occurred to the holdings between year-end and not more than 1 month prior to the date of the notice of the AGM.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

41. ASSETS UNDER CUSTODY

As at year-end, the group has N$6.5 million (2015: N$8.2 million) assets under custody.

42. CONSOLIDATED STRUCTURED ENTITIES

The group assesses whether it has control over structured entities in terms of IFRS 10. Where the group has control over a structured entity, it is consolidated in terms of IFRS 10. The group's structured entities are the BWH Group Employee Share Ownership Trust and BWH Group Employee Share Benefit Trust.

The group has control over these structured entities, as the trustees are appointed by the group's board of directors. The structured entities are therefore consolidated.

No contractual obligation exists for the group to provide any financial or other support to the consolidated structured entities. The group will provide financial support from time to time for the purchase of shares for the share incentive schemes. During the 2016 financial year, the group provided financial support of N$2.6 million (2015: N$7.0 million) to the BWH Group Employee Share Ownership Trust.

43. SEGMENT INFORMATION

The group considers its banking operations as one operating segment. Other components include property development, asset management, unit trust management and insurance brokerage. However, these components each contribute less than 5% to the group revenue, assets and profit for the year. Therefore, the group has no significant components other than banking. This is in a manner consistent with the internal reporting provided to the chief operating decision-maker, identified as the managing director of the group. The chief operating decision-maker is the person that allocates resources to and assesses the performance of the operating segment(s) of an entity.

In assessing the performance of the banking operations, the managing director reviews the various aggregated revenue streams, the total costs and the assets and liabilities related to the banking activities. The financial information included below is based on the bank's audited annual financial statements which complies with IFRS measurement and recognition criteria. In order to reconcile to the statement of comprehensive income and statement of financial position all entities that do not qualify as separate segments, as well as consolidation journal entries, are included in the "other" column.

43.1 Entity-wide disclosures

43.1.1 Products and services

Operating segment

Banking operations

Brand

Bank Windhoek

Description

Corporate and executive banking, retail banking services and specialist finance.

Product and services

Bank Windhoek Ltd conducts business as a registered bank and provides comprehensive banking services. Clients include both individuals and corporate clients.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

43. SEGMENT INFORMATION (continued)

43.1 Entity-wide disclosures (continued)

43.1.2 Geographical segments

There are no segment operations outside Namibia as the group operates within the borders of Namibia.

43.1.3 Major customers

Segment reporting requires the disclosure of an entity's reliance on its major customers, if revenue from transactions with a single customer is ten percent or more of the entity's revenue. The group does not have customers that contribute ten percent or more to its revenue and is therefore not reliant on a single major customer.

43.2 Financial information

	Banking		Other		Group	
	2016 N$'000	2015 N$'000	2016 N$'000	2015 N$'000	2016 N$'000	2015 N$'000
Net interest income – external	1,458,142	1,266,961	–	–	1,458,142	1,266,961
Net interest income – internal	(7,193)	(4,702)	7,193	4,702	–	–
Impairment charges on loans and advances	(60,779)	(58,305)	–	–	(60,779)	(58,305)
Net interest income after loan impairment charges	1,390,170	1,203,954	7,193	4,702	1,397,363	1,208,656
Non-interest income	769,594	678,058	184,210	134,540	953,804	812,598
Operating income	2,159,764	1,882,012	191,403	139,242	2,351,167	2,021,254
Operating expenses	(1,061,417)	(934,175)	(118,736)	(108,056)	(1,180,153)	(1,042,231)
Operating profit	1,098,347	947,837	72,667	31,186	1,171,014	979,023
Share of joint arrangement and associates' results after tax	1,405	960	97,123	87,159	98,528	88,119
Profit before income tax	1,099,752	948,797	169,790	118,345	1,269,542	1,067,142
Income tax expense	(336,848)	(293,195)	(27,646)	(20,945)	(364,494)	(314,140)
Profit for the year	762,904	655,602	142,144	97,400	905,048	753,002
Other comprehensive income	33,465	28,486	–	–	33,465	28,486
Total comprehensive income	796,369	684,088	142,144	97,400	938,513	781,488

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

43. SEGMENT INFORMATION (continued)

43.2 Financial information (continued)

	Banking		Other		Group	
	2016 N$'000	**2015 N$'000**	**2016 N$'000**	**2015 N$'000**	**2016 N$'000**	**2015 N$'000**
ASSETS						
Cash and balances with the central bank	**1,169,086**	619,865	**84**	42	**1,169,170**	619,907
Financial assets designated at fair value through profit or loss	**2,239,212**	2,364,171	**168,984**	223,290	**2,408,196**	2,587,461
Investment securities	**133,998**	100,533	**–**	–	**133,998**	100,533
Due from other banks	**1,006,602**	740,321	**–**	–	**1,006,602**	740,321
Loans and advances to customers	**26,598,023**	23,621,871	**–**	–	**26,598,023**	23,621,871
Other assets	**250,601**	334,742	**89,929**	33,325	**340,530**	368,067
Current tax asset	**59,552**	3,869	**625**	706	**60,177**	4,575
Investment in associates	**–**	–	**248,297**	233,157	**248,297**	233,157
Interest in joint arrangements	**5,099**	3,694	**–**	–	**5,099**	3,694
Intangible assets	**148,156**	104,012	**50,889**	51,153	**199,045**	155,165
Property, plant and equipment	**155,126**	151,600	**3,127**	2,443	**158,253**	154,043
Deferred tax asset	**2,685**	15,515	**3,578**	4,533	**6,263**	20,048
Total assets	**31,768,140**	28,060,193	**565,513**	548,649	**32,333,653**	28,608,842
LIABILITIES						
Due to other banks	**447,129**	130,151	**–**	–	**447,129**	130,151
Other borrowings	**1,164,051**	–	**–**	–	**1,164,051**	–
Debt securities in issue	**2,190,203**	2,310,243	**25,142**	150,969	**2,215,345**	2,461,212
Deposits	**23,862,500**	22,144,582	**(138,372)**	(150,584)	**23,724,128**	21,993,998
Other liabilities	**444,674**	332,473	**53,026**	28,273	**497,700**	360,746
Current tax liability	**–**	9,730	**1,801**	1,216	**1,801**	10,946
Post-employment benefits	**9,460**	8,416	**–**	–	**9,460**	8,416
Total liabilities	**28,118,017**	24,935,595	**(58,403)**	29,874	**28,059,614**	24,965,469
EQUITY						
Share capital and premium	**485,000**	485,000	**27,045**	45,050	**512,045**	530,050
Non-distributable reserves	**213,034**	196,486	**–**	–	**213,034**	196,486
Distributable reserves	**2,952,089**	2,443,112	**596,871**	473,725	**3,548,960**	2,916,837
Total shareholders' equity	**3,650,123**	3,124,598	**623,916**	518,775	**4,274,039**	3,643,373
Total equity and liabilities	**31,768,140**	28,060,193	**565,513**	548,649	**32,333,653**	28,608,842

Glossary of terms

BASEL II
The capital adequacy framework issued by the Bank for International Settlements aimed at aligning banks' capital requirements with relevant risk profile and risk practices.

CAPITAL ADEQUACY REQUIREMENT (CAR)
The minimum amount of capital required to be held, as determined by the Bank of Namibia.

COST-TO-INCOME RATIO (%)
Operating expenses, divided by total operating income.

EARNINGS PER SHARE (CENTS)
The group profit for the year divided by the weighted average number of ordinary shares in issue during the year.

FAIR VALUE
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

GENERAL BANKING RESERVE
The prescribed minimum impairment by Bank of Namibia on performing loans and advances. Allocations to this reserve are made from after-tax retained earnings.

HEADLINE EARNINGS
Profit for the year of the group from trading operations, excluding goodwill gain or losses, capital profits and losses and recycled profits or losses on available-for-sale financial instruments. Headline earnings do not measure sustainable earnings.

HEADLINE EARNINGS PER SHARE (CENTS)
Headline earnings divided by the weighted average number of ordinary shares in issue during the year.

NET ASSET VALUE PER SHARE (CENTS)
Net assets divided by number of the group's ordinary shares in issue at year-end.

PRICE EARNINGS RATIO
Closing share price (cents) divided by earnings per share (cents).

PRICE TO BOOK RATIO
Closing share price (cents) divided by net asset value per share (cents).

RETURN ON AVERAGE ASSETS (ROA) (%)
Group profit for the year divided by average total assets.

RETURN ON AVERAGE SHAREHOLDERS' EQUITY (ROE) (%)
Group profit for the year divided by average total shareholders' equity.

TIER I CAPITAL RATIO
Net total Tier I capital (after deduction of goodwill and 50% of cost of investments in affiliates) divided by total risk-weighted assets.

TIER II CAPITAL RATIO
Net total Tier II capital (after deduction of 50% of cost of investments in affiliates) divided by total risk-weighted assets.

TOTAL RISK-BASED CAPITAL RATIO
Total regulatory capital (Tier I, II and III capital) divided by total risk-weighted assets.

TIER I LEVERAGE RATIO
Net total Tier I capital (after deduction of goodwill and 50% of cost of investments in affiliates) divided by gross assets (total assets plus specific and general impairment).

THE CENTRAL BANK
The Bank of Namibia.

Notice of annual general meeting

Notice is hereby given that the 20th Annual General Meeting of the shareholders of Capricorn Investment Group Limited (the company) will be held in the Kokerboom Room of the NamPower Convention Centre, on the corner of Goethe and Dr Kenneth David Kaunda (previously Uhland) Streets, Windhoek, on Tuesday, 1 November 2016 at 16h00 for the following purposes:

AGENDA:

- To consider and, if approved, adopt the group and company annual financial statements for the year ended 30 June 2016.
- To confirm the ordinary dividends of 66 cents per share (2015: 53 cents per share) amounting to N$333.5 million.
- To consider and, if accepted, approve by a non-binding advisory vote the remuneration policy set out in the Remuneration Report on pages 72 to 76.
- To consider and, if accepted, approve the remuneration of the non-executive directors for the financial year ending 30 June 2017:

	N$ annual retainer	N$ attendance per meeting	No. of meetings
Capricorn Group board of directors	87,500	8,400	4
Capricorn Group board executive committee	15,000	6,000	10
Capricorn Group board audit, risk and compliance committee	30,000	12,000	5
Capricorn Group board remuneration committee	7,500	6,000	5
Capricorn Group board nominations committee	7,500	3,600	4
Capricorn Group board human resources committee	15,000	8,400	5
Capricorn Group board investment committee	15,000	9,600	4
Capricorn Group board sustainability and ethics committee	15,000	8,400	4
Capricorn Group board information technology committee	15,000	21,600	4

A 75% premium is paid to the chairman of each of the committees. The annual fee for the non-executive chairman of Capricorn Investment Group Limited is N$1,220,000.

- To appoint Messrs PricewaterhouseCoopers as auditor for the new financial year.
- To authorise the directors to determine the remuneration of the auditor.
- To elect directors in place of Adv. E Schimming-Chase, Ms G N Sekandi and Mr M K Shikongo, who retire by rotation but, being eligible, avail themselves for re-election. Biographical information of the directors is set out on pages 64 to 68 of the integrated annual report.
- To grant, in terms of the provisions of section 229 of the Companies Act, the directors a general authority to allot and issue the authorised but unissued ordinary shares of the company, upon such terms and conditions as they deem fit, subject to the provisions of the Banking Institutions Act and the listing requirements of the NSX.
- To grant, in terms of the provisions of section 229 of the Companies Act, the directors a general authority to allot and issue the authorised but unissued preference shares of the company, upon such terms and conditions as they deem fit, subject to the provisions of the Banking Institutions Act and the listing requirements of the NSX.
- To transact such other business as may be transacted at an annual general meeting.

VOTING:

All holders of Capricorn Investment Group Limited shares will be entitled to attend and vote at the annual general meeting. On a show of hands, every holder of Capricorn Investment Group Limited shares who is present in person or, in the case of a company, the representative appointed in terms of section 196 of the Companies Act, shall have one vote. On a poll, the holders of ordinary shares present in person or by proxy will each be entitled to one vote for every ordinary share held.

PROXIES:

A shareholder qualified to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend, speak and, on a poll, vote in his/her stead. A proxy need not also be a shareholder of the company.

In order to be effective, duly completed proxy forms must be delivered or posted to the company's transfer secretaries, Transfer Secretaries (Proprietary) Limited, 4 Robert Mugabe Avenue (entrance on Burg Street), Windhoek (PO Box 2401, Windhoek, Namibia) to reach this address not less than 48 hours prior to the meeting.

By order of the board
H von Ludwiger *Company Secretary*
Windhoek, 22 September 2016

Proxy Form

I, we (full names) ____________________

being a holder of __________ shares in Capricorn Investment Group Limited (the company),

hereby appoint (name) ____________________

or failing him / her (name) ____________________

or failing him / her the chairman of the meeting, as my / our proxy to attend, speak and vote on a show of hands or on a poll for me and on my / our behalf at the annual general meeting of the company to be held on 1 November 2016 and at any adjournment thereof, in particular to vote as indicated below on the resolutions contained in the notice of the meeting:

Please indicate by inserting an "X" in the appropriate block (either "for", "against" or "abstain"). If no indication is given, the proxy may vote as he / she deems fit.

I / we desire as follows:

Item	Description	For	Against	Abstain
1	Adoption of the annual financial statements			
2	Confirmation of dividends			
3	Approve the remuneration policy			
4	Approve the remuneration of the non-executive directors for the next financial year			
5	Re-appoint PricewaterhouseCoopers as auditor			
6	Authorise directors to determine the auditor's remuneration			
7.1	Re-elect retiring director: Adv. E Schimming-Chase			
7.2	Re-elect retiring director: Ms G N Sekandi			
7.3	Re-elect retiring director: Mr M K Shikongo			
8	General authority to the directors to allot and issue ordinary shares			
9	General authority to the directors to allot and issue preference shares			

Signed at ____________________ this ______________ day of ____________________ 2016

Signature ______________________________

(A shareholder entitled to attend and vote at a meeting shall be entitled to appoint a proxy or proxies to attend, speak and vote in his stead. A proxy need not be a shareholder of the company.)

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space(s) provided, with or without deleting "the chairman of the annual general meeting", but any such deletion must be initialled by the shareholder. The person whose name stands first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. Please insert an "X" in the relevant spaces according to how you wish your votes to be cast. However, if you wish to cast your votes in respect of a lesser number of shares than you own in the company, insert the number of ordinary shares held in respect of which you wish to vote. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he / she deems fit in respect of the shareholder's votes exercisable thereat. A shareholder or the proxy is not obliged to use all the votes exercisable by the shareholder or by the proxy, but the total of the votes cast and in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by the proxy.
3. Forms of proxy must be received at the company's transfer secretaries, Transfer Secretaries (Proprietary) Limited, 4 Robert Mugabe Avenue (entrance on Burg Street), Windhoek (P.O. Box 2401 Windhoek), Namibia not less than 48 hours prior to the meeting. Alternatively, forms of proxy may be sent to the company's transfer secretaries by way of telefax (+264 61 248531), provided that such telefaxes are received by the transfer secretaries not less than 48 hours prior to the meeting.
4. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.
5. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company's transfer secretaries or waived by the chairman of the annual general meeting.
6. Any alteration or correction made to this form of proxy must be initialled by the signatory / ies.
7. A minor must be assisted by his / her parent or guardian unless the relevant documents establishing his / her legal capacity are produced or have been registered by the transfer secretaries of the company.
8. The chairman of the annual general meeting may reject or accept a form of proxy which is completed and / or received, other than in accordance with these notes, if the chairman is satisfied as to the manner in which the shareholder wishes to vote.
9. Where there are joint holders of ordinary shares:
   I. any one holder may sign the form of proxy;
   II. the vote of the senior (for that purpose seniority will be determined by the order in which the names of the shareholders appear in Capricorn Investment Group Limited's register of shareholders) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholder(s).

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