

21 VALUE CREATION SUMMARY



Capricorn Group

About this summary

The Capricorn Group's 2021 performance summary provides a brief overview of the financial year from 1 July 2020 to 30 June 2021. We include a short profile of the Group and reflect on the performance, activities and engagements to bring about positive change. When we refer to the Group in this summary, we mean Capricorn Group's financial services operations in Namibia and Botswana. These operations are primarily focused on banking, insurance, wealth and asset management, microfinance and telecommunications.

The purpose of this summary is to keep our stakeholders informed and to respond to their request for a quick read version of the integrated report. This summary does not replace our full integrated report and annual financial statements. It is an extract from the 2021 Integrated Annual Report approved by the board on 14 September 2021.

Any forward-looking statements in this summary are uncertain and your investment or engagement decisions should not be based on these.

We are catalysts for sustainable opportunities that bring positive change.

We strive to have an organisational culture that encourages exceptional performance, accountability and a strong sense of responsible behaviour. We want to improve lives through leadership in financial services by being Connectors of Positive Change.

A year of positive change

Namibia is home to 2.5 million (2019) people of which almost half rely on subsistence farming. Our country enjoys about 300 days of sunshine annually with a subtropical desert climate characterised by great differences in day and night-time temperatures, low rainfall and overall low humidity.

This year was different. With very few exceptions, the region enjoyed abundant rainfall – the highest since the 2010/11 season. The rain replenished surface and groundwater, provided grazing for livestock and brought lilies to bloom in the desert. Nature restored herself and brought balance, harmony and colour to our landscapes.

For Capricorn Group, this symbolises the start of a positive growth phase following the hardship brought about by the COVID-19 pandemic. We capture this spiral of growth potential in our cover design and throughout the report. It references the sequence in all living things described by the Italian mathematician Leonardo Fibonacci.

As we embark on the future, the stability and sustainability of the Group for the benefit of all stakeholders remains our key priority. We believe that economic growth in Namibia and Botswana will accelerate as COVID-19 infections subside and vaccination accelerates.”

– Johan Swanepoel, Group chairperson

Highlights

- Operating profit decreased by 0.8% to N\$1.29 billion under the COVID-19 cloud
- Cavmont Bank was sold to Nigerian-based Access Bank Group effective 4 January 2021
- Bank Windhoek launched the first sustainability bond in the Namibian market
- We launched the distribution transformation programme to become a fully digital-enabled banking group

Major challenges

- The pervasive impact of COVID-19 on already deteriorating macroeconomic factors
- Increasing NPLs and pervasive credit risk

Key observations for 2021

- Performance exceeded expectations in a year overshadowed by pandemic-induced uncertainties.
- Liquidity risk continues to be high on the board’s agenda as liquidity remains under pressure in Namibia and Botswana. The Group has ample liquidity buffers and contingency funds in place to mitigate this risk.
- The successful disposal of Cavmont Bank allowed us to invest more time in digital transformation and in growth opportunities in Botswana.
- Navigating the extremely challenging market and economic conditions again highlighted the value of competent, skilled and experienced human capital that is highly committed and motivated.
- We continue improving the lives of stakeholders as we live the Group’s purpose.

“To objectively assess the Group’s performance, we need to reflect on the last two rather than just one year. 2019 saw the Group on a growth curve. Operating profit grew by 26.0% and Group profit after tax reached a milestone exceeding N\$1 billion. That curve came to an abrupt end nine months into the 2020 financial year when COVID-19 mitigation measures and associated regulation hit the world. The full 2021 financial year played out under a pandemic cloud.”

– Thinus Prinsloo, Group Chief Executive Officer

Capricorn Group at a glance

Capricorn Group is a Namibian-owned financial services group listed on the NSX. We have two banking subsidiaries operating in Namibia and Botswana, with other subsidiaries such as Capricorn Asset Management and Entrepo, as well as associates, providing associated and complementary financial products and services.

Our customers range from personal to corporate, and small and medium enterprises in between. Our value proposition is built around customers rather than products or channels. We apply data and digital technology in banking services, products and functionality to enhance our processes and services and thereby address current and future customer needs.

Our Purpose

Improving lives through leadership in financial services by being Connectors of Positive Change.



We improve lives by making a positive difference. We do this by constantly pushing the boundaries through innovation and improvement.



Leadership is the benchmark for everything we do and the way we do everything.



The sector we play in.



Our ambition is to be the undisputed best in delivering offerings with a clear and meaningful difference. Being Connectors of Positive Change is the outcome of our purpose.



What it means to be Connectors of Positive Change

- We connect our customers to products and services that positively impact their lives
- We bring positive change to our communities by being a responsible corporate citizen
- We encourage employee volunteerism through the Changemaker initiatives
- We connect our customers, partners and suppliers with opportunities for growth
- We seek to find innovative ways in which to bring together our customers and their aspirations
- We collaborate with the like-minded to bring about positive change in the countries in which we operate
- We are catalysts of sustainable opportunities

The Capricorn Way

We realise our purpose by making deliberate strategic choices and working according to The Capricorn Way. The Capricorn Way directs us towards positive change and is underpinned by three beliefs:

1. We believe that

**Purpose Inspires
Leadership**

2. We believe that

**Diversity Ignites
Quantum Leaps**

3. We believe that

**Being Connected
Helps Us Grow**

Our footprint

94% of the Group's profit from continued operations attributable to shareholders derives from Namibia. The main contributors are:



A future-oriented materiality process

During the year, we reviewed our material matters, given the change brought about by COVID-19. We intended to simplify the material matters based on a thematic analysis following this process:



The six material matters that will shape the content of our 2022 integrated annual report were approved by the board on 14 September 2021. We intend to entrench these in our internal reporting process.

Rank	Material matter	Impact time horizon
1	Conducting business in the right way	Short, medium and long term
2	Managing risks effectively	Short, medium and long term
3	Embedding a customer-centric service culture	Short and medium term
4	Building agile and high-performing teams	Short and medium term
5	Ensuring a responsible COVID-19 response	Short term
6	Making a positive impact in society	Short, medium and long term

Strategic choices drive value creation and preservation

Our strategy responds to a dynamic operating context described in the previous chapter and guides trade-off decisions in resource allocation and priorities. It enables the Group to focus its execution, identify opportunities and effectively mitigate strategic risks.

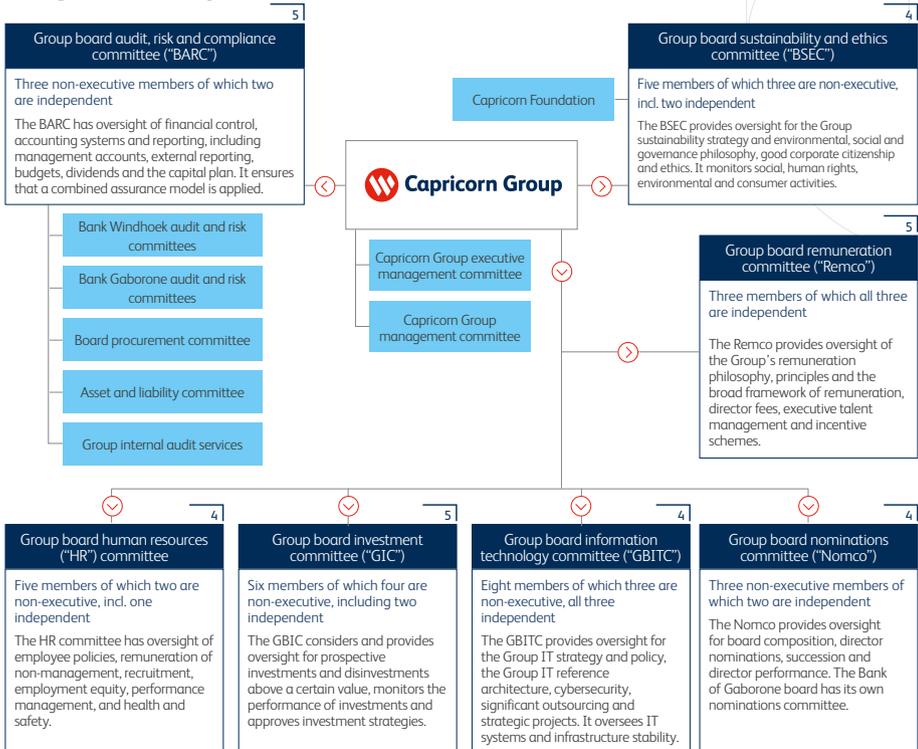
Capricorn Group has been following the cascade of choices approach to strategy development since 2018. It is an inclusive process that can be applied to any entity or team, enabling all to be aligned across the Group. This is also why strategy alignment scored high in our Mirror survey results.



We started the strategy cycle from 2021 to 2023 with six strategic choices. The outbreak of COVID-19 led us to review our strategic choices, risks and opportunities. The board agreed that the business strategy for the remainder of the 2021 to 2023 strategy cycle should be more about consolidation, stabilisation and digitisation than regional expansion. There was also an agreement to simplify and streamline our focus. As a result, the board approved the following three strategic choices on 12 April 2021, incorporating the material elements of all six choices.

Our governance system

Number of meetings per annum

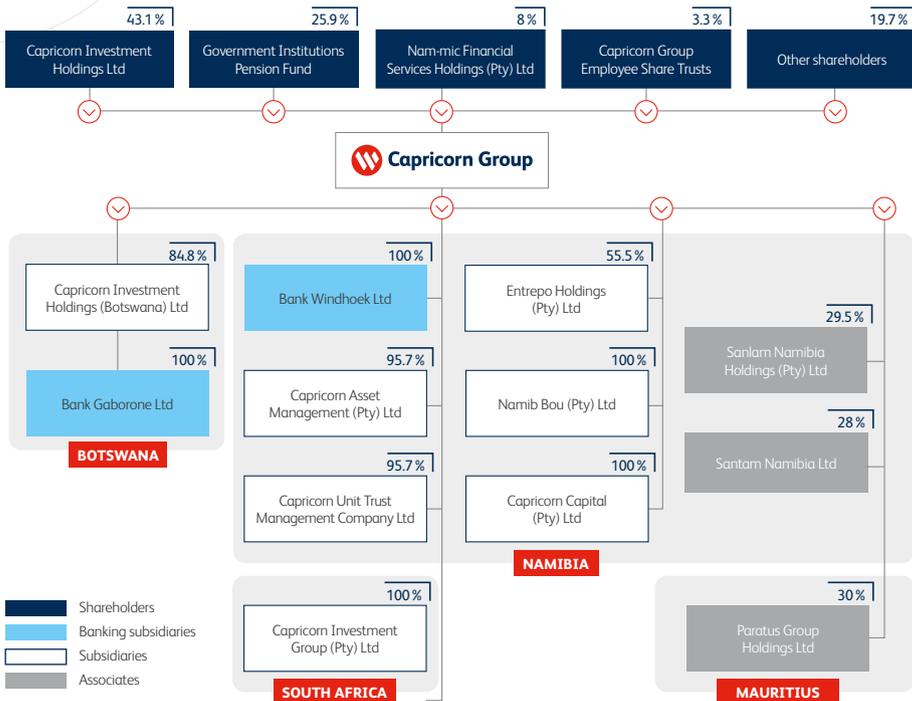


Capricorn Group and its subsidiaries are committed to the principles of sound corporate governance, which are characterised by discipline, transparency, independence, accountability, responsibility, fairness and social responsibility. By subscribing to these principles, the Group believes that all stakeholders'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

Our Group structure

“The Group has a real competitive strength in local decision-making, especially in the way it affects customers. This is our main driver for growing market share. In Namibia, we are taking market share from other players in a fairly saturated market. In Botswana, we have a growing market share, which means we have significant scope to gain new customers through new relationships, new products and new sectors.”

– Jaco Esterhuysen, Group Financial Director



We respond and support

Stakeholders communicate their interests and needs in different formats and through various channels. During the year, we received requests from a wide range of stakeholders, including the Namibia Standards Institution ("NSI"), the Gondwana Care Trust, MSR, Imago Dei and EduVision. We also responded to government imperatives, for example, following the launch of the Harambee Prosperity Plan II.



A **dipstick brand survey** was done in February 2021 with 652 customers from Bank Windhoek and Bank Gaborone and 553 employees. A similar survey was last done in 2018. The survey tested responses to potential name changes for the banks under a monolithic brand architecture. **Results were positive and emphasised improved customer perceptions and customer loyalty.** The survey affirmed our engagement with customers to ensure we **keep the Capricorn brand strong, reputable and visible, with a strong emotional connection** with internal and external stakeholders.



A **communication audit** was done to understand employee communication patterns with the Group and to assess the effectiveness of current communication channels. More than 560 employees participated in the survey, which was completed in May 2021. The overall effectiveness with which information is shared within the Group received a positive score of 7.8/10. Employees feel that their information needs are being met, scoring 7.4/10. Concerns include the number of communication channels and the fragmentation of sources. Some employees expressed feeling overloaded with information and the need for the Group to better target information. The three most important topics for employees are **strategy, compliance-related information and messages from the Group CEO or MDs.** The 2022 Group communication plan will be informed by this feedback.



The **Mirror survey** invites employees to **give feedback that tracks their engagement and identifies opportunities for culture transformation.** We add new elements to the survey every year.

Bank Windhoek adopted the **Determinants of Service Quality** ("DSQ") research methodology to measure **customer satisfaction.** The DSQ assessment obtains feedback on customers' service experiences, satisfaction (relationship and channel) and loyalty and assists to devise initiatives and strategies to drive overall improvement. **The bank achieved an overall satisfaction score of 80%.**



An **ethics survey** was concluded in October 2020 which established a baseline against which we can measure progress. We assessed three aspects, namely **ethical culture, ethical behaviour and ethics management practices** in addition to a handful of Capricorn Group-specific ethics matters. The ethics culture and behaviour assessments identified areas where we are performing well, for example, ethics awareness, openly dealing with unethical behaviour, top and middle management encouraging people to do the right thing, the commitment of especially non-managerial employees towards ethics, supplier relationships and management of conflicts of interest. The survey also assisted us in identifying areas where we can do better, such as **senior management visibility and communication on ethics,** setting good examples for ethical conduct and holding people accountable.



Our **material matters review process** included broad input via stakeholder owners to evaluate the relevance of the current eight material matters. These views formed part of the analysis, with the six material matters for 2022 reflecting a **strong alignment with different stakeholder groups.**



Performance highlights

Operating profit

N\$1.3 billion

(2020: N\$1.3 billion)

Profit after tax

N\$983.0 million

(2020: N\$856.4 million)

Net asset value per share

1,294 cents

(2020: 1,232 cents)

Capital adequacy ratio

15.0%

(2020: 14.7%)

Dividend per share

60 cents

(2020: 50 cents per share)

Return on equity ("ROE")

13.5%

(2020: 12.6%)

Earnings per share

170.7 cents

(2020: 148.6 cents)

Headline earnings per share

173.4 cents

(2020: 157.2 cents)

Price to book ratio*

1.0

(2020: 1.1)

Price earnings ratio*

7.6

(2020: 9.4)

Dividend yield*

4.6%

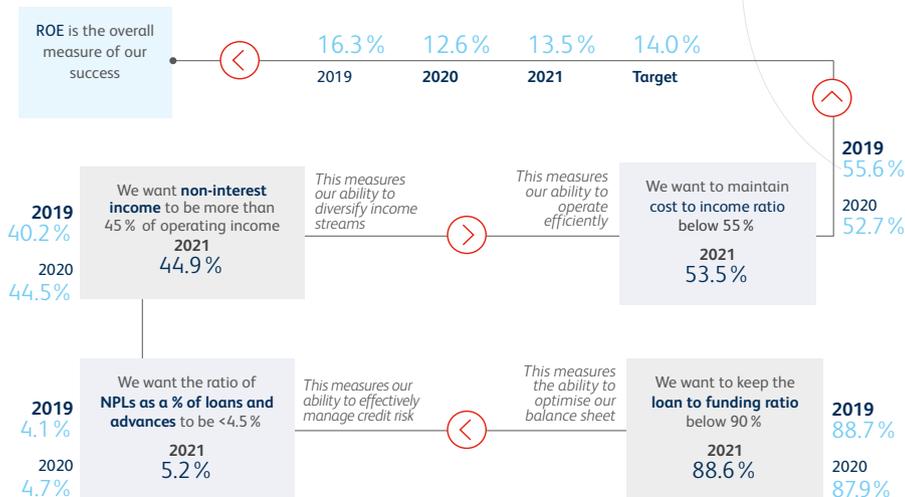
(2020: 3.6%)

* Based on closing share price as at 30 June 2021.

Our 2021 results demonstrated how Capricorn Group, as a Namibian-owned group, used the advantage of being local, nimble and responsive. We were able to preserve and grow value despite the economic and social shock brought about by COVID-19, based on:

- The diversified nature of the Group
- We have a strategic and responsive investment approach
- The quality of our operations, demonstrated by external awards and recognition
- Continuous development of customer-centric solutions and services
- We are stable, reliable and well capitalised
- We have a strong ethical culture, entrepreneurial spirit and commitment to transparency

Key financial indicators and 2021 targets to build sustainable competitive advantage



Key indicator trends

Group indicator	2018	2019	2020	2021
Return on average equity (%)	17.3	16.3	12.6	13.5
Return on average assets (%)	2.1	2.1	1.6	1.7
Earnings per share year-on-year growth (%)	0.1	0.5	(18.1)	14.9
Headline earnings per share year-on-year growth (%)	(13.1)	14.9	(13.4)	10.3
Net asset value per share year-on-year growth (%)	9.6	3.4	8.5	5.0
Cost-to-income ratio (%)	59.0	55.6	52.7	53.5
Operating profit year-on-year growth (%)	(2.2)	13.5	(3.4)	(0.8)
Profit after tax year-on-year growth (%)	1.8	8.7	(15.6)	14.8
Total risk-weighted capital ratio (%)	15.3	14.9	14.7	15.0
Dividend per share (cents)	60	66	50	60

Performance commentary

Considering an economy that was in recession even before COVID-19, a contraction of 5% in GDP in 2020 and lasting indirect impacts of the pandemic, Capricorn Group performed really well. Profit from continuing operations increased by 1.2% to N\$1.02 billion, compared to a small contraction of 2.2% to N\$1.01 billion in 2020.

Our performance relies on the resilience of our customers. Although we faced arrears and requests for delayed payments on loans of over N\$5.7 billion we ended the year with only N\$2.46 billion in NPLs. The entrepreneurial spirit and quality of our customers were evident as they adjusted quickly to survive.

Bank Windhoek's priority this year was to contain expenses and lower the cost to serve in a low interest rate and high NPL environment. Risks were proactively managed, resulting in profit after tax decreasing by 7.2% to N\$670 million (2020: N\$721 million).

The bank continued to grow market share, claiming the highest market share for loans and advances and second highest for deposits in Namibia.

Bank Gaborone delivered profit after tax of BWP49.0 million, an increase of 14.8% compared to the prior year, and continued to gain market share.

Capricorn Asset Management's assets under management reached an all-time high of N\$33.6 billion this year and ended on N\$31.8 billion, 1.6% higher than 30 June 2020. Fee income increased by 12.9% and net profit after tax by 19.5% as a result of the combined effect of higher inflows, significant trading in Government Bonds and Government Treasury Bills, and stable expenses.

Entrepo delivered solid performance by increasing profit after tax by 11.6% to N\$226.2 million (2020: N\$202.6 million), thereby making an increasing contribution to Group profits. New business inflows and income margins were satisfactory with management expenses tightly controlled and external debt ratios further reduced.



Bank Windhoek

2.7 %

growth in net interest income
(2020: 1.7 %)

4.3 %

growth in non-interest income
(2020: 0.5 %)

2.7 %

increase in liquid assets
(2020: 24.4 %)

4.9 %

decrease in operating profit
(2020: -10.8 %)

31.3 %

increase in NPLs
(2020: 20.5 %)

33.8 %

market share in loans and advances
(2020: 33.2 %)

Net interest margin of

4.1 %

(2020: 3.6 %)

Bank Gaborone

5.4 %

decrease in net interest income
(2020: 31.0 %)

28.8 %

growth in non-interest income
(2020: 6.3 %)

24.4 %

growth in liquid assets
(2020: 2.9 %)

12.9 %

increase in operating profit
(2020: (7.6 %))

2.8 %

decrease in NPLs
(2020: 15.3 %)

7.4 %

market share in loans and advances
(2020: 7.5 %)

Net interest margin of

3.8 %

(2020: 4.6 %)

Capricorn Asset Management and Capricorn Unit Trust Management

N\$31.8 billion

AUM
(2020: N\$31.3 billion)

1.6 %

growth in AUM
(2020: 14.2 %)

12.9 %

growth in non-interest income
(2020: 12.6 %)

Entrepo Finance

Net business inflows of

N\$198 million

(2020: N\$197 million)
reduced in the total loan book
increasing by

16.0 % to

N\$1.4 billion

(2020: N\$1.2 billion)

Net interest income increased by

16.1 % to

N\$139.9 million

(2020: N\$120.5 million)

Loan write-offs and provisions
decreased by

40.6 % to

N\$16.1 million

(2020: N\$27.0 million)

External funding as a
percentage of the total loan
book decreased from

44.3 % to 33.2 %

Entrepo Life

Net premium income
increased by

3.5 % to

N\$192.3 million

(2020: N\$185.8 million)

Claims paid increased by

15.5 % to

N\$35.5 million

(2020: N\$30.7 million)
and remained within the
actuarial assumptions

Policyholder and shareholder
reserves increased by

20.0 % to

N\$570.5 million

(2020: N\$475.6 million)

Shared financial value as an outcome

Stakeholder sharing in financial and other value created	Value and ratio	Value and ratio	% change
	2021	2020	
Employees In addition to remuneration, employees receive rewards, recognition and have opportunities for career and personal development.	N\$1.1 billion 33.0%	N\$1.1 billion 33.2%	3.0%
Suppliers Suppliers have a market for their products and services, and opportunities to expand the range and nature of their contracts with the Group.	N\$468 million 13.7%	N\$450 million 13.8%	4.0%
Government and regulators The Group pays taxes, duties and licence fees in the territories where we operate and supports government in maintaining a stable, trustworthy and well-functioning financial system.	N\$625 million 18.4%	N\$553 million 16.9%	13.0%
Communities The Capricorn Foundation is the Group's vehicle for its main community activities in Namibia and is funded by the subsidiaries. In addition to their financial contribution to the Foundation, all subsidiaries run their own CSR initiatives. The Group also runs a #Changemaker employee volunteer programme to support vulnerable communities. The 2021 contribution to the communities by the Group as reflected includes funds contributed to the Foundation by the subsidiaries by 30 June 2021 but not expensed in full.	N\$12.1 million 0.4%	N\$14.5 million 0.4%	(16.6%)
Shareholders Shareholders receive dividends and benefit from funds retained for future growth opportunities.	N\$255 million 7.5%	N\$417 million 12.8%	(38.9%)
Retained for future expansion	N\$918 million 27.0%	N\$747 million 22.9%	22.9%

Our business model

INPUTS



SOCIAL AND RELATIONSHIP CAPITAL

We have long-standing and new customers across all segments in Namibia and Botswana

We contract with a range of reliable suppliers

Customer loyalty: Bank Windhoek is the largest locally owned bank and the second largest commercial bank in Namibia

Bank Windhoek has a 33.8% market share and Bank Gaborone a 7.4% market share in loans and advances

The Foundation and Changemaker initiatives contribute to communities in need
The Capricorn brand is recognised in the region



We are increasing our investment in social and relationship capital as we support stakeholders in need.



HUMAN CAPITAL

2,019 permanent employees

N\$3.9 million training investment to upskill employees



We anticipate potential scarcity in digital and data analysis skills in the short to medium term.



INTELLECTUAL CAPITAL

Over 220 years' collective board member experience

We have a Risk Culture and 14 principal risks, each with a risk owner

We drive ethics awareness and behaviour through the Group Code of Ethics and Conduct Policy, The Capricorn Way and Suppliers Code of Conduct
We launched a distribution transformation programme



We are increasing our investment in digital transformation over the next few years in line with our strategic choices.



FINANCIAL CAPITAL

Retained income of N\$5.7 billion (2020: N\$5.5 billion)

Total assets of N\$56.0 billion

Total loans and advances of N\$40.8 billion

Total deposits of N\$40.2 billion

CAM AUM of N\$31.8 billion



Liquidity and funding will remain constrained in the short to medium term, which limits the capital available for investment in growth projects.



MANUFACTURED CAPITAL

12 branches/agencies, 17 ATMs, (including NCRS), 8 NCR ATMs, 384 merchants and 635 POS devices

24-hour customer contact centre

IT systems and business continuity facilities

Digital banking, apps and other platforms



Climate impacts from physical and transition risks and infrastructure quality might become a business constraint in the medium to long term.



NATURAL CAPITAL

Environmental and Social Management System

Water, energy and paper

We have a dynamic business model to create and preserve value while remaining true to our purpose

BUSINESS ACTIVITIES

Transactions – we facilitate payments

Loans, credit and deposits – we provide credit, loans and savings or investment products

Asset management – we invest and manage assets on behalf of customers

Advisory – we provide investment banking and advisory services

Bancassurance – we provide short and long-term insurance products

Foreign exchange and trade finance – we provide currency access to global markets

SHIFTS IN OUTCOMES EXPECTED OVER MEDIUM TERM AS WE IMPLEMENT OUR STRATEGY

OUTCOMES



SOCIAL AND RELATIONSHIP CAPITAL

More people are banking and insured

We make positive community impacts through the Foundation and Changemakers

The number of transactions increased

Our Net Promoter Score decreased to 39 %

Bank Windhoek received more awards



A wider variety of products and services will be linked to the Capricorn Group brand and underlying entities

Products and services will be simplified and easy to access

Less waiting time for clients and better customer experiences

Offerings will be more competitive and cost effective

New clients in new markets/segments

New partnerships across banking and digital

Shifts in priorities and CSI based on stakeholder feedback and responses



HUMAN CAPITAL

Employee turnover annualised at 4 %

Vacancies have been frozen

Absenteeism at 37.9 % (due to COVID-19)

46 % fully engaged employees (Mirror survey)

9,496 employees received training



More jobs created

Higher skills levels in data and digital

One team culture across subsidiaries

More diversified, inclusive and equity-representative teams

Improved workplace based on brand, communication audits and ethics survey



INTELLECTUAL CAPITAL

New capabilities launched via bank and MyCapricorn apps

NPLs mitigated through effective and proactive processes

Limited losses due to financial crime



More client data will be available for analysis and insights

Distribution transformation programme will create a bank for the future

King IV™ will be fully embedded in all subsidiaries



FINANCIAL CAPITAL

Value created for all stakeholders (see value added statement) and dividends paid

Cost-to-income ratio up to 53.5 %

Return on equity of 13.5 % increased

Capricorn Group remains well capitalised

Profit from continuing operations increased by 1.2 %

Business development plans are progressing



More diversified income streams with less exposure to interest rates

Scale achieved in Botswana will have positive cost impact based on transaction volumes

Strong growth from new ventures making a material contribution to operating profit

Available and optimised capital and funding



MANUFACTURED CAPITAL

Capricorn Group's footprint increased

Lower levels of cash in branches as more customers use digital banking



Expanded digital footprint and capabilities

Scalable digital offerings/platforms



NATURAL CAPITAL

Green Bond issuance of N\$66 million and Sustainability Bond issuance of N\$227 million since 2018

Solar Photovoltaic (PV): N\$256 million

Sustainable Agriculture: N\$10.75 million



Operational efficiency will optimise resource use

Bank Windhoek will remain a leader in sustainable financing

OUTPUTS

Products and Services

Banking

Specialised finance

Foreign exchange and trade finance

Lending

Wealth management

Asset management

Unit trust management

Bancassurance

Property development and evaluation

Micro-financing

Waste

Customer waiting time

Losses due to internal errors

The Capricorn brand story

From the beginning, the stars have filled Africans with wonder.

Our ancestors did not just gaze upon their beauty as they stared up at the night sky.

They used the constellations of stars for the measurement of time, seasons, cycles, and direction.

One such constellation is Capricornus, called by ancient people "the southern gate of the sun".

It is from this constellation that the Tropic of Capricorn got its name many centuries ago, when the sun was in the Capricornus constellation at the time of the southern solstice.

All lines of latitude have geographical relevance, but to the people of southern Africa, the Tropic of Capricorn is more.

Spanning across the centre of Namibia, it ties together the lands of southern Africa, receiving the brightest rays of the sun on the summer solstice.

It signals the time of abundance with flourishing offerings from nature.

We took our inspiration from the Tropic of Capricorn, the band that symbolised abundance and created positive change for the people.

Creating positive change is what every single member of our organisation strives to achieve every day.

To find innovative ways in which to bring together our customers and their aspirations.

We passionately believe that by connecting the people of this region to opportunity and prosperity, we can help taking the region closer to realising its greatest self.

Our humble beginnings in Windhoek were born out of a tenacious spirit of entrepreneurship.

Since then, our journey has led us on a path of achievements, growing us beyond Windhoek and Namibia.

Rooted in the pillars of "W" for Windhoek where it all began, the three lines of our logo represent our values of being open, dedicated and inspired.

We are proud of our logo that reflects our legacy and how we got to where we are now.

And as before, we will always achieve our successes by holding true to our values.

Along with this, we will continue to reach for the stars, Only now we seek them in the eyes of the ones whose lives we've made better.

Not only are we inspired by the dreams of those who call this beautiful part of Africa home,

But we want to make these dreams a reality for them.

The future shines brightly, and we will journey towards it as one.

We Are Capricorn.



www.capricorn.com.na



Details for QR code

Download any QR reader app on the Google Play Store or Apple App Store. Use the app to scan this code to be linked directly to the Capricorn Group Ltd condensed consolidated financial statements on our website. Alternatively, visit <https://www.capricorn.com.na/Pages/News-Centre/Capricorn-Group-Annual-Results-2021.aspx>