Risk Report 2024

Capricorn Group

About this risk report

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We are pleased to present our risk report for 2024, which describes how effective risk management is essential to our ongoing success and delivering sustainable returns to shareholders.

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

We describe how risk management contributed to the Group delivering on its purpose and ensured that risk management continued to create value for the financial year from 1 July 2023 to 30 June 2024 ("the year"). The report is aimed primarily at providers of financial capital.

The entities that constitute the Group are set out on page 7 of the integrated annual report.

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

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

This report was compiled with input from the Group principal risk owners ("GPROs") and executive leadership team and finally approved by the board on 10 September 2024. The board acknowledges its responsibility to ensure the integrity of the report.

Additional information is available online at https://www.capricorn.com.na/Pages/Investor-Relations.aspx

For more information or feedback on this report or any other elements listed above, contact Marlize Horn, tel: +264 61 299 1226 or investorrelations@capricorn.com.na.

Message from the Executive Officer ERM

Our risk management approach enables us to respond appropriately to the risks and opportunities present in a complex, challenging, but nevertheless rewarding operating environment.

Risk management is well-established across the Group, tailored for all legal entities, and applies to all organisational units and levels.

Confidently navigating uncertainty and managing our risks whilst strengthening our capabilities

This year global geopolitics continued to be volatile and unstable. The Russia-Ukraine war marked its second anniversary in February 2024, and in October 2023, war broke out in Gaza. A profoundly polarising conflict, the war in Gaza has the potential to spill over into a regional conflict and also influence politics in the United States. A world with increased conflict, uncertainty and volatility has the potential to disrupt global growth and drive inflation.

2024 is also a year of national elections as more voters than ever, representing 49% of the global population, head to the polls in at least 64 countries. This has created regulatory and policy uncertainty in the short and medium term. Elections in the United States and the European Union may be the most consequential ones in decades, with competing visions for international relations and economic policy that will profoundly influence the global business environment.

At the outset of our financial year, growth expectations for the global economy were low, with recessions predicted for several major economies. However, these low expectations did not materialise, and the global outlook has improved significantly, despite the overhang from major conflicts. Namibia's GDP grew by 4.5% in 2023, however, the economy remains small, with high unemployment and inequality. Activity in the mining, tourism and logistics sectors has picked up, which bodes well for future growth and employment. While Namibia was greylisted in February 2024, this has not materially impacted international investor interest, and foreign direct investment is at record highs.

According to the African Development Bank, Botswana's economic growth decelerated to 2.7% in 2023, compared to 5.8% in 2022, due to weak global diamond demand and drought conditions.

The country's economic growth is dependent on demand for its diamond exports, making it vulnerable to downturns in the diamond market and structural changes to the diamond market, including the growing appeal of lab-created gems. The Botswana government is eager to diversify from its significant reliance on diamonds.

Read more about our operating environment on page 22 of the integrated annual report.

Increased credit risk

While our banks strengthened their processes to protect asset quality, the ongoing economic impact of higher interest rates and persistent inflation continued to put pressure on key credit risk indicators. The Group's non-performing loan ("NPL") ratio (excluding interest in suspense) was 4.0% (2023: 4.5%), while our impairment charges increased by 39.4% to N$328.5 million. The credit loss ratio of the Group is 0.67%, which indicates that our losses are still within our credit appetite. The Group continues to hold adequate provisions for expected credit losses.

Given the economic conditions, this was expected, and we have taken measures to proactively address our credit risk. We expect to see improvements in impairments as the interest rate and economic cycle turns.

Improved liquidity for Namibia and Botswana

In 2024, Namibia experienced significantly higher levels of market liquidity thanks to improved investor confidence and foreign direct investment. Capital has remained within Namibia despite higher interest rates in South Africa. In Botswana, market liquidity improved significantly due to amendments to the Retirement Funds Act, which stipulates that pension funds must raise their domestic holdings to a minimum of 50% of their total assets progressively between 2023 and 2027.

Bank Windhoek grew its funding to N$44.4 billion at end June 2024 (2023: N$40.66 billion) while also improving its cost of funding. Bank Gaborone also grew its funding at end June 2024 to N$8.02 billion (2023: N$6.80 billion) while also making strides with sourcing cheaper funding. The Group maintained sound liquidity levels and buffers, with a loan-to-funding ratio of 86.3% as at year-end 30 June 2024 (2023: 89.2%).

Risk mitigation priorities for 2024

We continue to monitor factors that negatively impact our risk, including South Africa's energy crisis, climate change, supply chain risks, currency volatility and depreciation against the US dollar, and an evolving cyber risk landscape.

The board reviewed the Group's risk appetite statement to ensure the quantitative measures and thresholds align with our strategy and inform our budgets. This included making minor changes to our quantitative risk appetite to match our growth expectations for the year. There were no material changes to our qualitative appetite statements.

Our Group-wide ethics programme is well-established and reinforced through campaigns and ongoing training. This year, we reviewed ethics-related policies, including the Group Whistleblower Policy, where we strengthened protections offered to whistleblowers, and the Group Code of Ethics and Conduct Policy, where we amended our approach to receiving gifts. Our Risk Culture builder programme, which is now in its fifth year, continues to be well-attended.

Stress testing is a key banking regulation requirement. In recent years, we have enhanced our stress testing capabilities, and in 2024 we continued to embed these enhancements in our processes. We will expand our integrated stress testing model, to ensure that we have adequate capital for our growth ambitions and sustainability.

We are aware of the impacts of climate change and environmental degradation. Monitoring our sustainability risks is a focus area of the Group's sustainability integration programme. In 2024, we developed a Group environmental risk management framework in consultation with subject matter experts. This framework will strengthen our ability to identify, assess, and manage material environmental risks, including physical and transition risks. The board will review and approve this framework in 2025.

We operate in a world where technology is pervasive and powerful. As a financial services group, we appreciate the potential of newer technologies, including cloud computing, advanced analytics, machine learning, biometrics and artificial intelligence ("AI"). Our future value creation will be influenced by how we adopt and deploy new technologies to increase operational efficiencies, meet customer needs and develop new business opportunities.

As we digitise our activities, we are cognisant of cybersecurity risks and sensitise our customers to newer, more sophisticated risks. In addition, we are executing our multi-year cyber resilience programme to build our cybersecurity capabilities alongside our technology investments. We have also reviewed our financial crime risk management framework to identify areas for enhancement.

Regulatory changes

We continued to navigate a changing regulatory environment. In 2024, several regulatory changes occurred in Namibia and Botswana. In Botswana this includes changes to bring the management and hosting of critical IT systems within the country's borders, which has cost, and resource implications for the Group.

In Botswana, the Data Protection Act was promulgated in 2018, with the transition period for the Data Protection (Amendment) Act (Period of transition of Processing Personal Data) Order 2023 ending on 13 October 2024. Bank Gaborone conducted an impact assessment on its systems. A migration plan and implementation plan are in place with the aim to comply with the requirements of the Act.

The Bank of Botswana issued a new Banking Act, yet to be enacted, with a specific requirement for the Bank Risk Committee to receive reporting on Risk Culture. Bank Gaborone is included in the Group Risk Culture building programme and group-wide Risk Culture maturity assessments. Risk Culture reporting to the risk committee has been in place since 2018 and no additional action is needed to comply with this requirement.

Capricorn Group remains abreast of regulatory developments, provides inputs to draft regulations as part of the consultative process, and adapts our policies and control frameworks in line with new regulations as and when required. For example, our anti-money laundering ("AML") policies and framework were designed with the FATF recommendations in mind.

In January 2024, the Bank of Namibia announced its intentions to engage with the financial services sector regarding the sector's integration of sustainability and climate change considerations into its processes. Our fit-for-purpose sustainability programme positions the Group to respond to emerging regulatory requirements concerning decarbonisation and environmental risk management. This proactive approach will enable compliance with potential regulations, reinforcing our commitment to sustainable practices and building resilience against material environmental risks.

Read more about our regulatory context on page 23 of the integrated annual report.

Outlook

Our world is fraught with geopolitical tensions and economic uncertainties. Yet, despite a volatile global picture, there are promising signs of growth, especially in Namibia, which has significant oil and gas potential and a promising renewable energy sector, including green hydrogen. Unfortunately, the drought in some regions of Namibia will negatively affect the agricultural sector, with a devastating impact on food security for many Namibians.

Botswana's GDP growth is expected to track the performance of diamond sales. However, the country faces several other risks, including El Niño-driven weather patterns and global diamond market disruption. Botswana is a stable democracy, and the government is diversifying its economy.

In South Africa, bleakness has been replaced by optimism that political changes after the May 2024 election can arrest deteriorating socioeconomic conditions. For the first time in 30 years, the liberation party lost its electoral majority and consequently formed a government of national unity with several other parties. This was positively received as signals about the strength of South Africa's democracy and the potential for policy change.

South Africa still has a long road ahead to attract investment, rebuild institutions and empower its people. For economic growth to reach above the 1% to 2% range, consumer, business, and investor confidence must significantly improve. Economic growth in the region should improve materially should South Africa deliver on its potential and resolve its long-standing electricity crisis.

Demand for credit from household and business credit remains subdued in Namibia, Botswana and South Africa. While Botswana is unlikely to react much to further interest rate cuts, there is scope for credit growth in Namibia and South Africa when interest rates reduce. Lower interest rates coupled with lower inflation should stimulate private sector credit extension in the near term for consumers and businesses to take up credit.

Concluding remarks

We managed our business activities within the board-approved risk appetite during the reporting period. Thanks to our trained and risk-aware employees, our well-established Group Risk Internal Control and Assurance Framework ("GRICAF") supported our risk management and addressed our financial and non-financial risks.

Throughout the year, the Group's capital and liquidity balances remained stable and within or above the board-approved ranges. The Group maintains an adequate capital buffer to comply with regulatory requirements and remain within our internal risk appetite. We remain focused on capital optimisation to improve the efficacy with which capital is employed.

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

Our risk philosophy and approach

Risk-taking is an integral part of conducting business, and the Group relies on sound risk management practices to enable the safe and responsible execution of its strategy.

We continue to approach risk systemically and holistically, focusing on “what must go right”. Sound corporate governance, board and senior management support and a formal system of risk management that includes the three lines model to enable accountability and appropriate risk responses at every level of the organisation. Our deliberate focus on Risk Culture building fosters a risk-aware work environment where everyone contributes to risk management and not only the central risk and assurance functions.

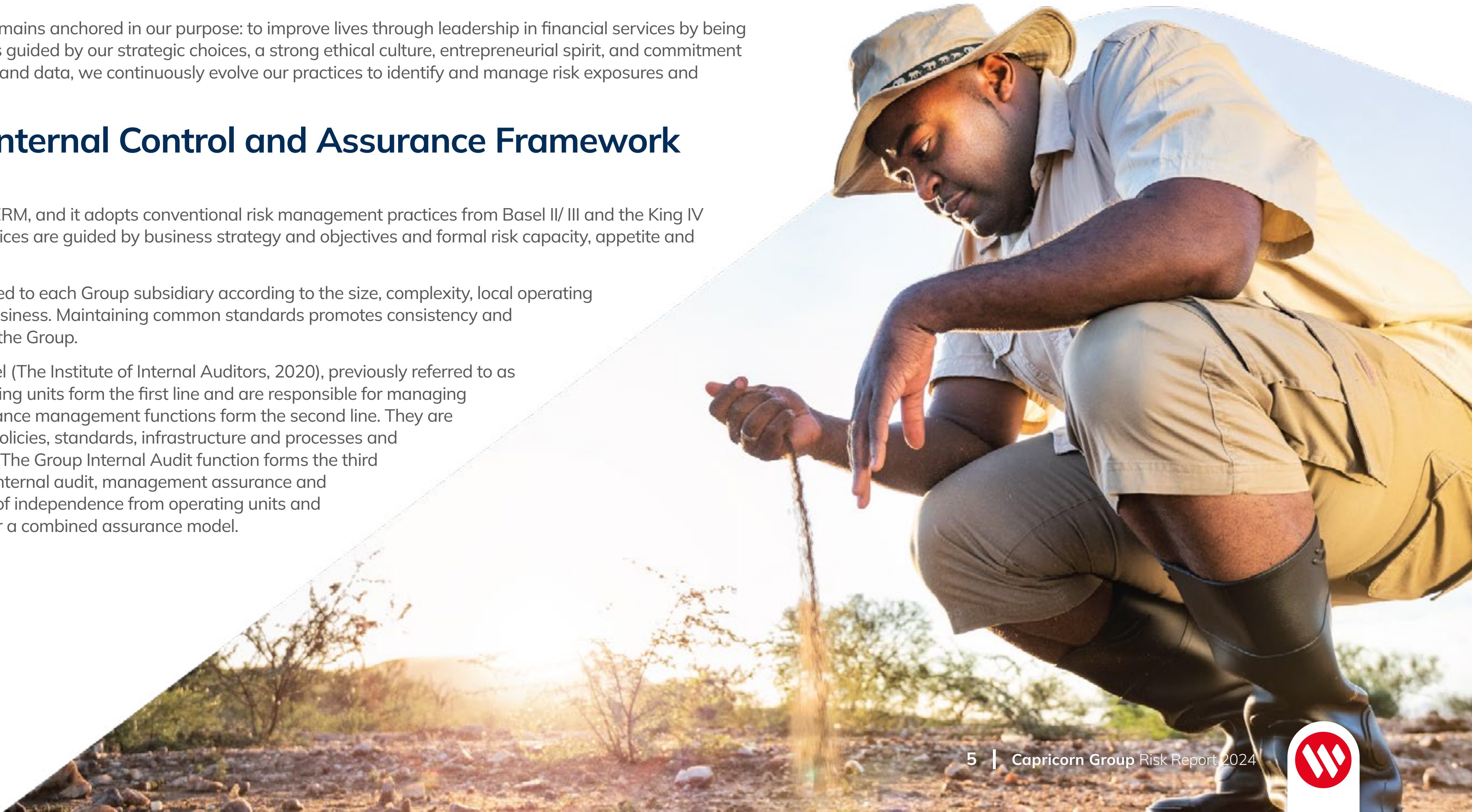
Our risk management approach remains anchored in our purpose: to improve lives through leadership in financial services by being Connectors of Positive Change. It is guided by our strategic choices, a strong ethical culture, entrepreneurial spirit, and commitment to transparency. Using technology and data, we continuously evolve our practices to identify and manage risk exposures and corresponding capital needs.

Our Group Risk Internal Control and Assurance Framework (“GRICAF”)

The GRICAF is our framework for ERM, and it adopts conventional risk management practices from Basel II/ III and the King IV Principles. Risk management practices are guided by business strategy and objectives and formal risk capacity, appetite and tolerance statements.

The application of GRICAF is tailored to each Group subsidiary according to the size, complexity, local operating conditions and regulation of the business. Maintaining common standards promotes consistency and aggregation of risk profiles across the Group.

We apply the IIA’s three lines model (The Institute of Internal Auditors, 2020), previously referred to as the “three lines of defence”. Operating units form the first line and are responsible for managing risks, while central risk and compliance management functions form the second line. They are responsible for risk management policies, standards, infrastructure and processes and oversight of first line conformance. The Group Internal Audit function forms the third line. Assurance functions such as internal audit, management assurance and compliance have varying degrees of independence from operating units and perform monitoring activities under a combined assurance model.



GRICAF objectives

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

- Enable the Group to execute its strategy.
- Optimise efficiency by effectively using risk resources in the Group.
- Directly contribute to creating end-customer value by eliminating unnecessary tasks in the process.
- Build standard risk management accountability, principles and processes into the business management process.
- Ensure that risks and the impact on capital are understood and managed proactively within acceptable risk capacity, appetite and tolerance.

Principal risks

The main risk types across the Group are referred to as principal risks. A Principal Risks Policy and individual Principal Risk Frameworks define our risk management and control system. The Principal Risks Policy sets out the risk types and roles and responsibilities associated with managing the principal risks, while the individual Principal Risk Frameworks describe aspects specific to each principal risk.

Appointed senior executives are accountable for each principal risk. A formal and defined risk and control framework per principal risk outlines the risk management system, including relevant key controls, related key risk indicators and thresholds, and roles and responsibilities concerning the principal risk. Risk Management Frameworks are developed using a systemic approach to risk and control framework design to ensure that our risk management practices support and sustain the risk management system's performance objectives. Governance requires that we report on each principal risk at least quarterly in terms of risk profile, trends and red flag areas.

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

Embedding a Risk Culture

Our corporate culture is the bedrock of our conduct both inside the organisation and in the market. The Capricorn Way encapsulates our common beliefs and desired behaviours.

Through the GRICAF, we emphasise behaviours that constitute a sound Risk Culture and ethical conduct through our Risk Culture building and ethics programmes. Both programmes target all employees to ensure that there is a clear understanding of each person's role in managing risk and conducting business ethically in any operating context. The aim of the programmes is to create the necessary understanding and awareness of factors that impact decision-making and to support colleagues in making the correct choices and decisions in their operating environment.

2024 progress

Culture: The enterprise-wide ethics programme activities were implemented, comprising Group-led and subsidiary-specific activities. Our Group's internal voluntary certified Risk Culture builder programme, which is now in its fifth year, continued to attract participants. Fifty-eight volunteers from Namibia and Botswana graduated in the 2024 programme, and 73 volunteers enrolled in the 2025 programme. This personal development programme involves direct interaction with Group ERM, participation in work groups, case studies and face-to-face training sessions. In addition to creating risk awareness and driving risk discussions, the Certified Risk Culture Builders also contribute to other initiatives on a voluntary basis.

Risk frameworks: We developed an Environmental Risk Management Framework which covers the physical and transition risk associated with climate change adaptation. We also conducted an assessment of our financial crime risk management framework with the assistance of experts in the field. We delivered on this year's objectives in our multi-year cyber resilience programme.

Technology and data: Under banking regulations, stress testing is a key requirement (Basel III, Pillar 2). We have enhanced our ability to conduct integrated stress testing. These enhancements are still being embedded, and they will enable us to assess risk impacts in an integrated manner, for example, across product portfolios, the balance sheet and income statement. The Group initiated an assessment of conformance to the sound principles for risk data aggregation and reporting although the associated Basel principles (BCBS239) are not regulated in Namibia and Botswana (they are in South Africa). The assessment provided input to formal risk data related activities to be undertaken.

Our regulatory context for risk

Basel II/III phases

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

Bank of Namibia published a determination ("BID-6A") on Basel III Liquidity Requirements for Domestic Systematically Important Banking Institutions in March 2024. The purpose of BID-6A is to introduce the requirements of the Basel III liquidity standards, namely, the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). BID-6A further prescribes additional liquidity risk management tools for compliance by the Domestic Systemically Important Banks ("DSIBs").

Banking regulations in Botswana are based on Basel II, and the status quo was maintained throughout the year. The Bank of Botswana has yet to engage the industry on implementing Basel III, as indicated during the bilateral meeting to discuss the Basel III liquidity ratios in December 2022. The Bank of Botswana conducted an industry survey on the NSFR and the LCR to establish the market's readiness, and the industry still awaits feedback on the survey.

2024 progress

In Namibia, BID 6-A became effective on 31 March 2024, and banking institutions must follow a phased-in approach to comply with the LCR and NSFR requirements.

Regional regulatory risk matters

In the Namibian jurisdiction, the focus of Anti-Money Laundering activity has been on the remediation of gaps identified through the mutual evaluation and the draft Data Protection Bill that was circulated. We provided commentary on the draft Data Protection Bill and have completed the readiness assessment. The actions, as decided on in the readiness assessment, are being implemented to ensure compliance once the bill is promulgated.

The mutual evaluation by the Eastern Southern Africa AML Group ("ESAAMLG") for Namibia was completed, and the final report was issued in September 2022. Following the review and adoption of the Mutual Evaluation Report, Namibia was given a year to close all findings to avoid a targeted Financial Action Task Force ("FATF") review and greylisting. To avoid greylisting, 11 amendment acts were prepared and have since commenced. However, these attempts have proved insufficient, and Namibia was officially greylisted in February 2024.

The Financial Intelligence Centre has assured stakeholders that closing gaps in the mutual evaluation findings is a top government priority.

Further focus was placed on the draft Determination on Recovery Plans ("BID-36"). The Bank of Namibia issued draft BID-36 in May 2024 for industry commentary. The purpose of draft BID-36 is to ensure that banking institutions are well prepared to react to and recover from severe financial distress, preventing serious disruptions to the financial system.

In Botswana, the focus has been on the Data Protection Act, 2023, which places restrictions on the communication of data across borders. Engagements have been held with the Data Commissioner to agree on a migration plan for hosting IT systems in Botswana. The original commencement date was 15 September 2023, but this has been deferred to 13 October 2024.

Alignment with King IV™

The Group Governance Framework and the GRICAF support the principles of King IV™. Principle 11 requires that risk be governed in a way that supports the Group in setting and achieving its strategic objectives.

In the current year, the board's nominations committee ("Nomco") directed the formal evaluation of the boards, committees, directors, chairpersons and the Group's company secretary.

Questionnaires were circulated to directors to evaluate the performance of the boards, committees, chairpersons, the Group's company secretary and their peers.

The summary reports were presented to Nomco and indicated a satisfactory appraisal outcome. No significant matters were identified. Recommendations were discussed and converted into an action list for each board and board committee.

The summary reports of the director peer appraisal, indicating a satisfactory outcome, were presented to the chairpersons, who undertook to implement the recommendations.

How we govern and manage risk

The board recognises that risk relates to the uncertainty of events and that these could potentially positively or negatively impact our ability to create value. The board allocates the responsibility for oversight and governance of risk management to the board audit risk and compliance committee ("BARCC"). The Group CEO is the senior executive responsible for implementing a sound risk management framework.

BARCC

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

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

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

2024 progress

The Group formalised and issued Guidance on the identification, monitoring and reporting of Emerging Risks and conducted training for all Group Principal Risk Owners and Subsidiary Principal Risk Owners. Reporting of emerging risks is now included in the Risk Register and regular risk reporting.

The Cyber Principal Risk Framework is being embedded through the cyber resilience programme, while a draft Group Environmental Risk Management Framework has been developed and will be approved by the Board in 2025.

Overview of ERM

The board assumes responsibility for risk governance and sets the direction for how the Group approaches risk. Various policies and guidelines direct our risk governance, which is regularly reviewed in accordance with our document governance requirements.

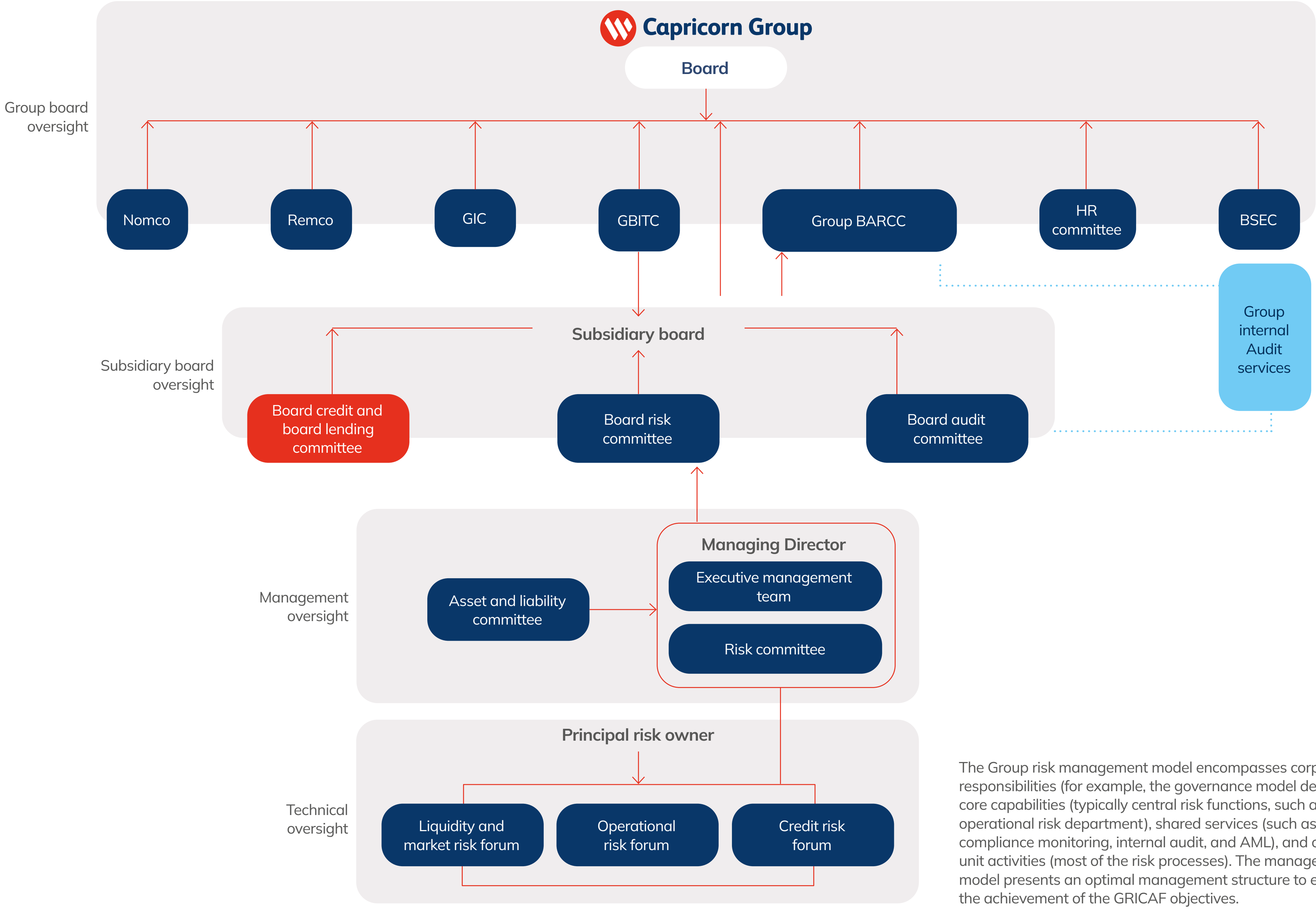
The GRICAF processes and enabling infrastructure allows us to proactively identify and act on risks and opportunities that may impact the Group's strategic actions. The GRICAF target maturity level is one of dynamic risk management. A dynamic maturity level is characterised by continuous improvement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

The board is ultimately accountable for the GRICAF's adequacy. The board receives assurance on this through combined assurance from the risk, management assurance, compliance, and internal audit functions. Together, these internal functions give the board a view of how various role players execute the GRICAF practices.

The board also draws on the perspectives of external auditors and regulators who conduct regular reviews of the Group's operating entities. The combined internal and external inputs provide the board with an overall evaluation of the implementation and effectiveness of the risk policies and frameworks.

The Basel risk-type frameworks are assessed by the Group's banks through self-assessments based on a combination of regulatory requirements and sound practices. Each bank's risk committee reviews self-assessment outcomes and monitors the remediation of significant identified gaps. Detailed action plans with owners and due dates ensure rigorous remedial actions. The self-assessment results are reported to the Group risk committee, and progress on implementing remediation action is monitored centrally within the banks.

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



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

The risk management value chain

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

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

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

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

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

Risk management enablers

Enablers of a dynamic risk management system		
GRC system The Group has deployed several systems to support its risk management activities in addition to the inherent risk management functionalities in business systems. There are dedicated systems to support each of the risk management functions. ERM has a rich data environment that is continuously being enhanced and expanded.	**Group risk committee and the Group principal risk owner ("GPRO") role** The GPRO role was created to allocate accountability and coordinate the execution of the Group risk committee mandate. The executive management team established the committee to oversee Group-wide risk management, compliance and risk governance. The committee differs from entity risk committees in its oversight role, emphasising the aggregated risk profile and adequacy of the GRICAF infrastructure and control systems (the control frameworks).	**Centres of expertise** Value is created for subsidiaries through shared services and centres of expertise located in Namibia and Botswana. These provide thought leadership and direction and perform non-routine activities such as advisory engagements and special assignments. Examples include AML expertise, financial risk modelling, compliance monitoring, corporate governance and Risk Culture building. While the strategic direction is set centrally, it is interpreted and adapted locally in line with the Group's strategic guidance approach. Decentralised local execution meets market expectations. Sharing services such as compliance monitoring, cyber resilience expertise, analytics and quantitative modelling provides economies of scale, greater integration, and engagement on risk management across jurisdictions.

Risk Culture: An effective risk culture is the key to the successful management of risk, such a culture promotes a shared understanding of risk and supports the Group's strategy, business model, operational practices, and processes to achieve sustainable competitive advantage. Our Risk Culture supports all elements of the GRICAF by cultivating and embedding the correct understanding of and attitude towards risk and risk management.

It is essential for risk management initiatives and actions to become part of an organisation's culture. Our risk culture also enhances the Group's reputation; by prioritising risk management, we demonstrate to our stakeholders that we take our responsibilities seriously. This can help to build trust with customers, investors, and regulators, which can ultimately lead to increased business opportunities.

2024 progress

The compliance monitoring unit has executed a plan to monitor compliance for core legislation in Namibia and Group-wide AML compliance monitoring.

Progress was made with an enterprise data and analytics strategy ("EDAS"). A dedicated risk data domain was identified to consolidate existing ERM data environments under a single, standardised data architecture. The Basel Committee on Banking Supervision ("BCBS") issued principles for effective risk data aggregation and risk reporting in banking institutions that were adopted by the Group.

The cyber resilience capability was enhanced through the cyber resilience programme, which achieved all its objectives for the year.

Risk capacity, appetite and tolerance ("RCAT")

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

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

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

The following constitutes our zero tolerance levels:

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

2024 Group risk profile

The Group's main risks are represented by the 14 principal risk categories that apply across the various operating units in Namibia and Botswana. The overall aggregated principal risk profile for 2024 is as follows:

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

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

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

Capital risk

Capital risk is the risk that the Group cannot meet its capital requirements or fund business expansion when needed. It includes the risk that regulatory requirements are not adhered to, the resultant costs of non-compliance, and the fact that insufficient capital will adversely affect the Group's ability to expand and grow.

How we mitigate this risk

The objectives of the Group when managing capital include:

> Complying with minimum regulatory capital requirements in all jurisdictions.
> Safeguarding the ability of the Group to continue as a going concern.
> Optimising the effective use of capital.
> Maintaining a sufficient capital base to support business development and expansion.

Our banking subsidiaries conduct an annual internal capital adequacy assessment process ("ICAAP") to assess capital adequacy beyond regulatory capital. Important factors considered in the ICAAP include the Group and subsidiary strategy, business performance and growth objectives, budgets, forecasts, adverse risk scenarios across all principal risks, and the effectiveness of the risk and control frameworks to mitigate the identified risks.

The outcome of the ICAAP is approved by the respective banking subsidiary boards and forms the basis for prudent but efficient capital management.

The board reviews its risk appetite at least annually following the strategic direction review and then sets the appropriate key risk indicator thresholds. The approved thresholds are monitored and managed within these parameters at a Group and entity level.

The parameters are set using a red, amber, and green ("RAG") status indicator to denote "out of appetite," "approaching threshold," and "within appetite" statuses, respectively. A threshold above the minimum regulatory requirements is applied, as can be seen below, to serve as a buffer to support the Group's growth aspirations and prepare for potential strategic interventions.

Capicorn Group	RAG status		
Descriptor	Red	Amber	Green
Regulatory capital adequacy compared to minimum regulatory capital adequacy ratio of 10%	<14.5%	14.5% – 15.0%	>15.0%

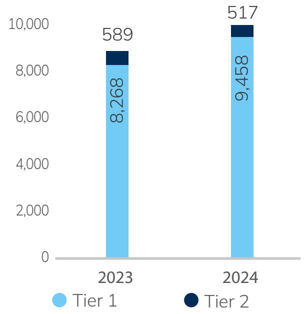
The Group and its banking subsidiaries remained adequately capitalised in terms of local regulations throughout the reporting period.

Capital adequacy is reviewed monthly at the banking subsidiary asset and liability committee ("ALCO") level and quarterly at the banking subsidiary board audit committees, Group ALCO, Group risk committee, and Group BARCC level. Additionally, capital levels are stressed annually under hypothetical scenarios as part of the banking subsidiary's ICAAP process. Any emerging risks are proactively managed.

Key risk indicators

Key regulatory capital figures for Capricorn Group	2024	2023	Variation
Tier 1 ratio	**17.2%**	15.8%	1.4%
Total capital ratio	**17.9%**	16.9%	1.0%
Leverage ratio	**13.0%**	12.5%	0.5%
Tier 1 (N$'000)	**9,448**	8,268	14.3%
Tier 2 capital (N$'000)	**411**	589	(30.2%)
Total capital (N$'000)	**9,859**	8,857	11.3%
Risk-weighted assets (N$'000)	**55,071**	52,288	5.3%

Total capital – Capricorn Group (N$'000)



Priorities for 2024 and progress made

The Group maintained its capital optimisation efforts. In 2024, the Group deployed a scientific approach to optimal capital levels, which will inform future decisions on business growth and dividend distributions.

Governance oversight

Capital risk is reported and monitored at the subsidiary and Group levels. At the subsidiary level, this includes the ALCO, risk committee, board risk and compliance committee and board. At the Group level, capital risk is overseen by the Group ALCO, risk committees and BARCC.

Outlook for this risk

In 2024, the Group strengthened its solid capital position, which is anticipated to continue in the next financial year. The Group is expanding its integrated stress testing model, which will assess the soundness of the capital plan and the buffer level to ensure adequate capital is accessible to support future growth and safeguard its sustainability in case of unfavourable market and economic conditions.

Residual risk

Green – This principal risk is within appetite due to the adequate capital reserves above minimum regulatory and ICAAP requirements.

More information

Read more about the composition of regulatory capital and the ratios of the Group in note 3.7 of the consolidated annual financial statements from pages 79 to 80.

Compliance risk

Compliance risk relates to financial and reputational risk exposures attributable to non-compliance with laws and regulations, money laundering (including the prevention and combating of terrorist and proliferation activities), business conduct, and reporting and disclosure.

How we mitigate this risk

The Risk Management Framework to manage compliance risk is in place and was reviewed in 2023 with changes made to control objectives for key risk drivers. Please see below for the revised control objectives.

The Group compliance management programme regulates compliance with legislation, regulations, supervisory requirements and applicable international principles. As a financial services group with licensed operations in Namibia and Botswana, our licences to trade are dependent on compliance with regulations as prescribed by applicable Namibian and Botswana regulators.

The Group board sets the risk appetite. There is no appetite within the Group for reactive, persistent or recurring non-compliance with core policies or core legislation. From time to time, instances of non-compliance may occur, which are immediately addressed through the formal remediation process of the compliance framework and reported to governance forums.

The key risk drivers and control objectives for compliance risk are:

AML measures

Failure to implement and maintain proper controls to safeguard against money laundering, terrorist financing and proliferation financing. Control objectives:

- Compliance with AML, counter-terrorism financing and counter-proliferation financing ("AML/CTF/CPF") legislation as applicable in the jurisdiction/country.
- Effectively remediate compliance gaps.
- Maintain relationships with regulators.

Regulatory compliance

Failure to comply with core laws and regulations or to maintain sound relationships with regulators. Control objectives:

- Compliance with core legislation as applicable in the jurisdiction/country.
- Effectively remediate compliance gaps.
- Maintain relationships with regulators.

Internal compliance

Failure to comply with internal compliance rules, processes and procedures for safeguarding against non-compliance. Control objectives:

- Identify laws, regulations and standards.
- Assess and understand the status and level of compliance.
- Maintain an independent and effective compliance function.

Legislative awareness

Failure to be aware of new or amended legislation or other legal principles and, therefore, not complying with them may give rise to legal or regulatory liability or sanctions by regulators. Control objectives:

- Legislative review responsibility must be allocated to a specific owner.
- Line management must be kept informed of legislative changes.
- Business impact analysis must be performed for legislative changes and readiness assessments developed.
- The compliance universe must be kept up to date with legislative changes.

Priorities for 2024 and progress made

In 2024, we extended our compliance monitoring capability to include core legislation for our Botswana operations. We also made steady progress with the data quality of AML threshold reporting to regulators in Namibia and Botswana. Our AML/CTF/CPF training programme with several role-based models was finalised and implemented. We also implemented risk inheritance and financial profile screening in our operations.

Priorities for 2025

We will focus on the implementation of the re-verification of customer information functionalities and reviewing and updating compliance policies and standards

Outlook for this risk

Due to the ESMLAAG/FATF Namibian country assessment results, more regulatory reform, and scrutiny by regulators within short timelines are envisaged. Data protection has also become topical in line with global and South African trends. Read more about regional regulatory matters on page 23 of the integrated annual report.

Residual risk

Compliance risk remains amber, with a stable forecast, primarily due to regulatory challenges experienced for the period and certain regulatory findings remaining open for remediation.

The Group maintains a robust and formal issue remediation process where gaps are identified.

Credit risk

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

The operating context affecting credit risk

In 2024, the Group's banks navigated a challenging operating environment of persistent inflation, credit deterioration, and increased credit risks, driven by various internal and external factors such as drought, geopolitical tensions, and South Africa's unstable electricity supply.

The global economy continued to be affected by inflationary pressure. Major global central banks kept rates at historically high levels due to persistent inflationary concerns. In addition, geopolitical stress, political uncertainty, and socioeconomic strain continued to disrupt the global economy.

In the region, monetary policy authorities also focussed on achieving inflation targets. South Africa continued its trajectory of electricity loadshedding, leading to logistical constraints and affecting economic activity across southern Africa. However, the incidence of loadshedding declined during the second half of our financial year.

In the Namibian operating environment, the economy noted improvements in economic activity. However, interest rates remained high for longer than initially anticipated, which affected borrowers' repayment ability. Although the Bank of Namibia did not raise interest rates, credit risk was higher year-on-year due to the lag effect of high interest rates after borrowers exhausted their safety nets. This was exacerbated by the relatively higher cost of living, loss of jobs, and lower rainfall, among other factors.

In contrast, Botswana saw more stability in the interest rate environment. However, pressure remained on the lending book during the year as the economy lost momentum during the latter half of the calendar year 2023. The government aims to diversify the economy away from mining, specifically diamonds. However, 2024 economic growth is forecast to remain constrained, with improvements only expected in 2025.

The economic forecast for Southern Africa looks more positive. However, it still lags behind East African projections.

How we mitigate this risk

Credit risk is managed through a comprehensive policy and management framework which conforms to and incorporates regulations, Basel standards, International Financial Reporting Standards ("IFRS"), sound industry practice and board risk appetite, including the continuous monitoring of risk profiles and concentration risk of the overall portfolio.

Analyses, predictive models, and stress testing are used to enhance the understanding and management of credit risk in all the steps in the credit process. This includes application vetting, credit assessment, sanctioning and disbursement, repayment monitoring, debt collection, and write-offs. A continued focus is placed on managing environmental and social risks through the Environmental and Social Management System ("ESMS") and using it in the loan application process to ensure responsible, sustainable lending.

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

> Continuous development and enhancement of qualitative statistical tools to enable proactive management.
> Embedding and refining risk grading and pricing, supported by emerging risk analytics.
> Enabling broad-range credit management through developing monitoring, detecting, and assessment tools and reports.
> Improving employee engagement and collaboration through various electronic training and shared-learning activities.

Governance oversight

Credit risk is monitored and managed by the entity credit risk forums, executive management team, risk committees and BARCC.

Key risk indicators

Key regulatory credit risk figures	2024 (June)	2023 (June)	Variation
NPL as a percentage of gross loans and advances (%)	**4.70%**	5.20%	0.50%
IFRS 9 stage 3 provision/specific impairment provision (N$'000)*	**1,178,814**	1,114,845	5.7%
Impairment charges in income statement (N$'000)	**328,461**	235,610	39.4%

Priorities for 2024 and progress made

We strengthened our credit risk management in the following ways:

> Monitoring of NPLs and enhancement of early warning mechanisms.
> Improved management information for legal collections purposes.
> Using advanced analytics to improve financial risk models and stress testing.
> Enhancements to business rescue and pre-legal functions as follows:

Current and future focus areas:

> Investigating a digitised credit management and collections processes.
> Business rescue and pre-legal functions for proactive credit risk management.
> Developing and implementing digitised and automated credit approval, management, and collection processes.
> Focus on designing innovative banking products to assist distressed customers.
> Continued focus to execute on credit management and collections processes.
> Pro-active and focused management of stage 2 customers.
> Continued focus and implementation of collateral centralisation and optimisation actions.
> Optimise credit processes for proactive problem detection and remediation.
> Embedding the credit stress recovery plan.

Outlook for this risk

The outlook for credit risk is projected to remain high because of the fragile economy, geopolitical tensions, inflationary pressures and high interest rates.

Pressure on irregular and NPLs is expected to remain in the short to medium term, negatively impacting arrears, provisions and bad debt.

The following focus areas will be fundamental to credit risk management for 2025: the proactive and efficient management of this risk, the embedment of online applications, pre-approvals, centralisation of key processes and functions, and the incorporation of mathematical models.

Residual risk

The risk profile is amber as the operating environment remains uncertain and exposed to unpredictable risks. To mitigate the uncertainty, the framework, controls, and new initiatives are continuously assessed, enhanced, and implemented.

Cyber risk

Cyber risk is any risk associated with financial loss, disruption, or damage to an organisation resulting from failure, unauthorised or erroneous use of its information systems.

How we mitigate this risk

Cyber risk is an inherently high and escalating risk due to the higher prevalence of digital platforms and interconnectedness. These increasing threats place sensitive data and organisational security at significant risk. Cyberattacks are increasing worldwide, and banking institutions are key targets. Cyber risk receives notable focus and support from the board. The Group mitigates cyber risk through various technical and non-technical controls, including:

> Cyber resilience programme that drives and enhances the maturity of cyber capabilities.
> Cyber risk management process.
> Third-party cyber risk management programme.
> Cyber incident response plans and procedures.
> Security operations centre (“SOC”).
> Cyberthreat modelling.
> Employee security awareness programme.
> Cyber management information system.
> Vulnerability management programme.
> Network, perimeter, and infrastructure security controls.

Key risk indicators

> External cyber posture - improving
> Internal cyber posture - improving
> Third-party cyber posture - improving
> Various cyber metrics - improving

Governance oversight

Cyber risk is overseen at the board level by the GBITC and BARCC and at the management level by the Group and subsidiary risk committees.

Priorities for 2024 and progress made

We continued to implement an enterprise-wide cyber resilience programme with various workstreams. We continue to adapt this programme in response to emerging cyberthreats. This includes expanding our testing programme and depth of defences.

Outlook for this risk

Cyber risk is expected to continue increasing worldwide, and the potential impact of cyberattacks will continue to be a top risk. The cyber resilience programme is designed to address current and emerging cyber risks

Residual risk

The residual risk is rated as amber and improving due to steady progress with the cyber resilience programme. However, the cyberthreat landscape continues to expand and evolve.

Finance and tax risk

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

How we mitigate this risk

The Group maintains a robust risk and control framework to mitigate the finance and tax principal risk. The framework consists of policies, standards, processes and procedures that are implemented Group-wide to ensure the completeness and accuracy of all transactions from inception to reporting. Key controls include:

> Accounting policies and procedures are clearly defined.
> Roles are clearly defined, and duties are appropriately segregated. All transactions are initiated and approved per the authority matrix tailored for the Group entity and each subsidiary.
> The reconciliation of financial accounts is prepared according to set rules and standards and reviewed monthly.
> The management team prepares and reviews management accounts monthly and reports them to the various audit committees and boards every quarter.

The design and implementation of these controls are monitored through internal audits conducted during the year on internal control processes within the finance departments across the Group.

The Group employs suitably qualified and skilled individuals with knowledge of applying IFRS and tax legislation in our regions. The Group utilises internationally recognised accounting software, which is subject to annual general and application control audits by external auditors. Our external auditors' annual engagement ensures compliance with IFRS on a separate and consolidated basis.

The risk of non-compliance with tax legislation is mitigated by properly implementing controls and processes. The processes are adequately supervised, including reviewing and approving all direct and indirect tax calculations and reports before submission. External tax specialists are consulted when there is uncertainty about complex tax matters. Additionally, periodic internal audit reviews and external audit procedures are conducted by tax specialists.

Key risk indicators

We monitor penalties and restatements as key risk indicators.

Governance oversight

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

Priorities for 2024 and progress made

The Group automated a number of accounting processes, which further reduces operational risk.

Outlook for this risk

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

The Group will focus on maintain the current robust internal control framework, while improving efficiencies, by reviewing and updating processes and procedures related to budgeting and financial reporting.

Residual risk

The overall risk profile for financial and tax risk is within appetite, green, due to the satisfactory status of the design and effectiveness of the controls.

Financial crime risk

Financial crime risk is the risk of loss, damage, or harm associated with fraud, theft, corruption, and related criminal activities, which are collectively referred to as fraud. It excludes theft of cash and company assets from company facilities (part of operations risk) and information security breaches and electronic crime (part of cyber risk).

How we mitigate this risk

A Risk Management Framework to manage compliance risk remains in place, with amendments made to control objectives as required. A Group board qualitative risk appetite statement has been approved for financial crime during the period.

The board has a low appetite for control inefficiencies and a lack of fraud prevention measures and monitoring mechanisms that negatively impact the Group's ability to detect and prevent financial crime within the Group.

The key risk drivers for compliance risk are:

Internal	Instances of financial crime involving temporary or permanent employees, contractors or agents duly appointed within the group, including cases involving collusion between any of the above with external parties. Fraudulent acts committed by employees of a subsidiary against a fellow subsidiary are classified as internal crime.
External	Instances of financial crime involving parties external to the Group.

The revised control objective for financial crime key risk drivers are:

Control objective

General (internal and external crime)

> Build internal fraud management capacity and expertise.
> Proactively identify fraud-sensitive business areas (channels, products, services and processes).
> Manage fraud incidents and evidence.

Internal crime

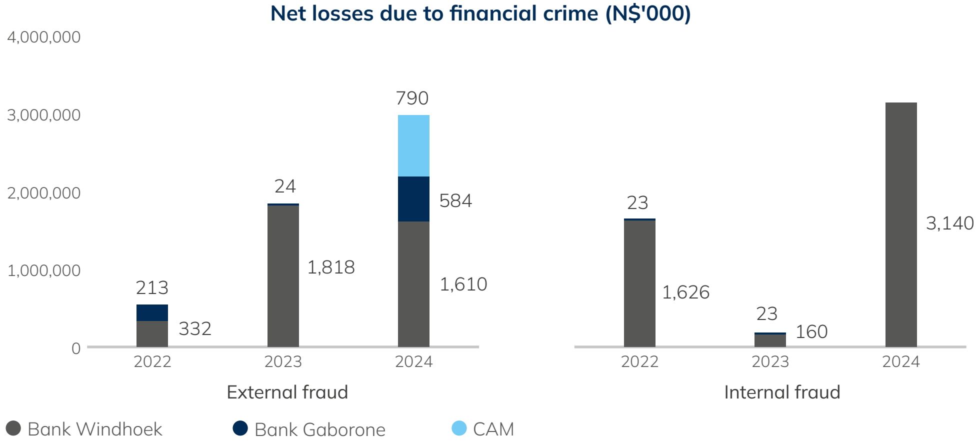
> Monitor the standard of internal controls that safeguard areas with significant fraud risk.
> Raise employee fraud awareness.
> Monitor internal fraud trends.

External crime

> Monitor local and regional criminal trends.
> Monitor syndicates and organised crime.
> Proactively monitor significant fraud risks in key areas.

Net losses due to financial crime (N$'000)

We experienced an increase in external fraud for Bank Windhoek and Capricorn Asset Management ("CAM") in 2024. The main drivers of external fraud for Bank Windhoek are card-not-present fraud claims and mobile application-related fraud. The root causes were identified, and appropriate action was taken.



Priorities for 2024 and progress made

An external financial crime risk assessment was conducted to provide a deeper understanding of our fraud risk profile and the associated risks. The findings informed our risk management focus, planning and budgeting for the next 18 to 24 months. Ethics training was deployed across the Group while subsidiaries conducted focused training and awareness tailored to their needs.

Priorities for 2025

In 2025, we will broaden our framework self-assessment to enhance our controls while implementing fraud risk assessment recommendations in line with the qualitative risk appetite statement over the next 18 to 24 months.

Residual risk

The residual risk is rated as amber with a stable forecast, as losses are within appetite and progress is made on implementing recommendations from our fraud risk assessment.

Outlook for this risk

The risk profile trend is amber and stable, with losses being within appetite and recommendations from our fraud risk assessment being implemented.

Legal risk

Legal risk is defined as the risk of losses arising from an unintentional or negligent failure to meet a professional (legal) obligation to specific customers (including fiduciary and suitability requirements) or from the nature or design of products, services, legal relationships or transactions.

How we mitigate this risk

The Legal Risk Management Framework remains in place with amendments made to control objectives. This framework also incorporates a legal risk appetite statement. Legal risk appetite is expressed as follows:

> Low tolerance for mismanaged legal documentation or the incorrect use of legal templates.
> Low tolerance for mismanaged intellectual property.
> No tolerance for reliance on legal advice provided by departments other than legal services.
> Low tolerance for mismanaged litigation or a high litigation loss ratio (excluding legal costs).

The key risk drivers for legal risk are:

Legal documents	The risk that legal documentation is not enforceable as intended or may be enforced against the entity in an adverse and unintended manner. Documents may contain insufficient protection mechanisms to limit legal liability (defective transactions) or may not be drafted in accordance with applicable laws, regulations and legal principles, giving rise to legal or regulatory liability or sanctions regulators. We mitigate the risk by ensuring that all legal templates used by the bank are standardised and approved by the legal team and that all the latest approved legal templates are published on the central repository and easily accessible to all employees. We ensure that all vendor contracts are legally in order and that contract renewal and expiry dates are monitored. All contracts are kept in a central repository, and the original paper versions are stored safely.
Litigation	The risk that civil litigation as either plaintiff/applicant or defendant/respondent is not managed adequately. Litigation risk includes alternate dispute resolution ("ADR"), such as arbitration and mediation. We mitigate this risk by monitoring and managing all legal action instituted by or against the Group, including the legal proceedings and related costs, in a way that creates the best possible outcome for the Group.
Legal advice	The risk that the entity receives incorrect legal advice due to inadequate in-house legal or gaps in legal employees' skills, experience or specialised knowledge. The failure to select the right external legal providers may give rise to legal or regulatory liability or sanctions by regulators. We mitigate this risk by ensuring that decisions are based on valid legal principles and that only approved external legal advisors are used, that the use of legal advice is properly managed and that the legal function has sufficient capacity and expertise to respond effectively to legal requests.
Intellectual property	The risk that intellectual property is not managed correctly in accordance with Group principles and policies. We have a formal process to register and maintain our intellectual property.

Priorities for 2024 and progress made

The Ethics Institute of South Africa conducted a review of our procurement process and issued recommendations which were implemented.

Priorities for 2025

We will evaluate our legal system as part of a broader assessment of technology requirements.

Outlook for this risk

The legal risk is green, with a stable forecast for the next year. No trends have been identified in litigation for remediation.

Residual risk

Legal risk remains green with a stable trend due to the adequacy and effectiveness of the risk and control framework for legal risk.

Liquidity risk

Liquidity risk is inherent in the Group's business and is the risk of failure to meet payment obligations when they fall due, to replace funds when they are withdrawn, to repay depositors, and to fulfil lending commitments while ensuring compliance with all statutory and regulatory requirements.

How we mitigate this risk

Liquidity must be sufficient at all times to meet obligations, both on and off-balance sheet, as they become due while minimising the cost of obtaining liquidity. The Liquidity Risk Management Framework and contingency funding plan are documented and formally approved by the BARCC. Liquidity risk is monitored and managed by a complete list of quantitative and qualitative triggers listed in the plan and serves as an early warning system. The Group's overall liquidity position is monitored and managed in conjunction with the plan to ensure sound liquidity of all operating units. The liquidity risk is managed by monitoring various identified variables, which include:

> The level of understanding of demand and supply for liquid assets.
> Long-term versus short-term funding needs.
> The level of adequacy and ability to access funding (established lines of funding) in a short period of time.
> Regulatory compliance.
> Market and economic dynamics in the region.
> Relationships with depositors.

In addition to a buffer liquid assets portfolio at Bank Windhoek, the Group maintains a N$1 billion contingency funding facility available to its banking subsidiaries. The facility is invested in highly liquid assets in South Africa, so it is not affected by local market liquidity conditions while eliminating any foreign exchange risk. Annual contingency funding line testing is performed, and the test was successful in the current year. Additionally, Bank Windhoek performed a thorough and successful liquidity stress testing simulation exercise in April 2022. The simulation is a regulatory requirement to be performed by an external facilitator every third year. Bank Windhoek conducted a liquidity stress testing simulation exercise in April 2024, with internal facilitators leading the process. The simulation was successful. Bank Windhoek plans to have the next liquidity stress simulation with external facilitators in 2025. Bank Gaborone plans to complete both an internal and external liquidity stress simulation in 2025.

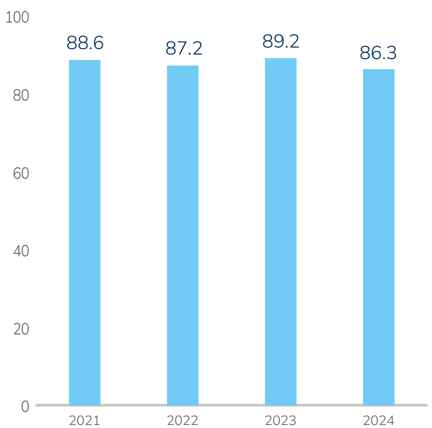
Liquidity risk continued to be effectively managed within the constraints imposed by current economic conditions. Funding concentration risk is mitigated by procuring funding from a diverse range of sectors. Bank Windhoek had healthy liquidity levels throughout the year as it benefitted from Namibia's overall higher market liquidity. In 2024, Bank Gaborone benefitted from increased market liquidity in Botswana, leading to an improvement in the cost of funding.

More information

Read more about liquidity risk in note 3.4 in the annual financial statements from page 68.

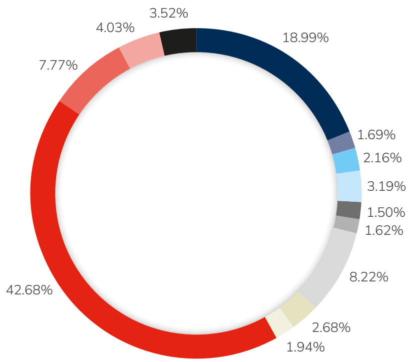
Key risk indicators

Loan to funding ratio (%)*

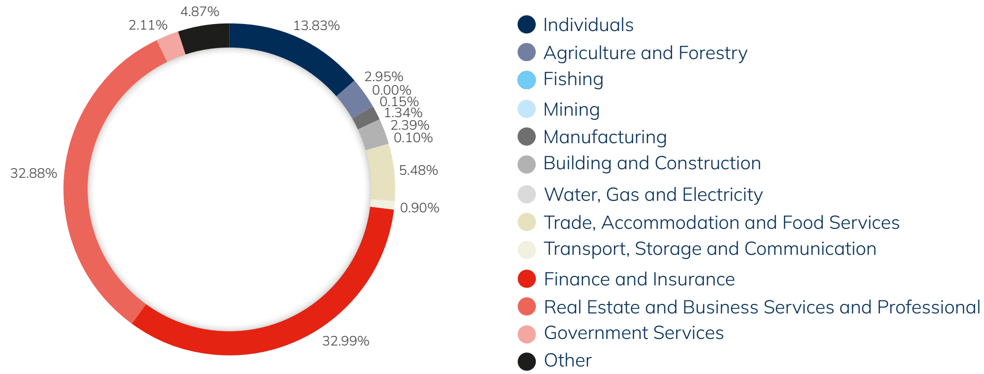


* Target: Below 90%

Bank Windhoek deposit portfolio per sector



Bank Gaborone deposit portfolio per sector



Governance oversight

Liquidity risk is managed at the bank level through the treasury functions and at the enterprise level by Group finance through daily dashboards and reports (first line). Central risk functions in the banks and the Group ERM financial risk management function perform the corresponding second line roles, which include reporting to management and board-level risk committees. Reviews occur monthly at the banks' liquidity and market risks forum, ALCO, risk committees and at the Group ALCO. The risk is further reported at the quarterly Bank board risk and compliance committees, Group risk committee (a management committee) and Group BARCC.

Priorities for 2024 and progress made

> Bank Gaborone's funding book grew to levels within the risk appetite.
> An integrated stress testing model was developed and deployed to stress various risk components. It will be further enhanced to stress additional risks, such as liquidity, to ensure that we are adequately funded and that the liquidity buffers are appropriate to ensure sustainability and stability. A successful internal liquidity stress simulation exercise was performed.
> The cost of funding was well-managed, and we foresee that the current conditions will persist. We will continue to maintain sound liquidity levels and manage the cost of funding as efficiently as possible.

Outlook for this risk

Liquidity risk management is core to our operations. The Group places significant focus on setting sound appetite thresholds and maintaining liquidity levels within these parameters. The Group will focus on managing its cost of funding in response to market dynamics, especially in Botswana. Market liquidity levels have increased over prior periods, and the Group is optimistic that these levels will continue within the foreseeable future. Additionally, the Group monitors customer behaviour, loan disbursements, maturities and market conditions to maintain healthy liquidity levels.

The Group will engage an external facilitator to simulate its liquidity resilience under adverse market conditions and various liquidity shocks. A detailed recovery plan that encompasses liquidity is currently in development.

Residual risk

The risk profile is green and stable, as the Group maintains sound liquidity levels within its risk appetite

Market risk

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

The following market risks usually arise:

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

How we mitigate this risk

Market risks are actively monitored at Bank Windhoek and Bank Gaborone, especially considering the uncertainty brought on by wars in Palestine and Ukraine. Although the oil price has stabilised, energy and transport costs and the drought in Namibia and Botswana will drive inflation uncertainty. Southern Africa experienced a relatively stable interest rate environment, with local currencies trading mainly within ranges and equities performing strongly.

The South African elections were deemed successful. however, with further elections scheduled for Namibia and the United States, active market risk management remains critical. Interest rates should decline if geopolitical conflicts subside and market disruptions remain minimal. The outlook for Namibia, with oil and gas exploration and green hydrogen initiatives, is extremely positive for growth. This could mean that interest rates further diverge from South Africa in the near future. The region's prospects are positive and will improve further should the recently appointed South African government maintain a stable power supply and deliver on growth.

The ALCO is responsible for optimising, controlling, directing and setting strategies for the Group's day-to-day balance sheet management, as per the risk appetite statement and the prudential regulatory requirements. The interest rate committee, an ALCO subcommittee, guides discussions on the global and local economic climate in conjunction with the latest yield curve to reach a consensus on the interest rate outlook.

The committee also recommends a strategy to the banks via ALCO in terms of the mix of assets and liabilities, hedging and other risk management strategies based on future economic and interest rate expectations.

The liquidity and market risk forum, another ALCO subcommittee, is a pre-ALCO working forum consisting of key bank role players who debate the balance sheet structure, interest rate and funding considerations.

This includes bank strategy under current economic circumstances and identifying emerging risks. Issues and recommendations are escalated to the ALCO.

Detailed key risk indicators and limits aligned to the banks' risk appetites are monitored daily and reported to key stakeholders, governance committees and central banks as required. Each entity manages its funding book according to the following:

- Actual market information.
- Market expectations on the state of the local economy (central government borrowing plan, Bank of Namibia quarterly review and GDP).
- Expected future monetary policy changes.

Foreign exchange risk is managed by closely monitoring the limits set out in the Market Risk Framework. Both on and off-balance-sheet foreign currency exposure is measured and reported against the banks' qualifying capital to manage the risk within the risk appetite. Models and stress tests are used to better understand the market risk environment. Foreign exchange positions are managed via stop-loss orders and derivatives in the spot market to close or hedge unwanted exposure.

Key risk indicators

Maximum duration value, currency exposures and interest rate mismatches are some key risk indicators monitored.

Outlook for this risk

Inflation has returned to the South African Reserve Bank's targeted range, increasing the prospects of interest rate cuts. Interest rates could decline 25 to 50 basis points before December 2024, with further cuts anticipated in the 2025 financial year.

Achieving an optimal funding mix remains critical, especially as Namibian, Botswana and South African rates continue to diverge. The differential between the Namibian and the South African repo rate is likely to remain, with no reason for the Bank of Namibian to reduce this back to zero. Interest rate basis risk remains on assets linked to the Namibian prime rate and a portion of the liability book linked to the three-month JIBAR. Bank Windhoek will transition to the new South African Rand Overnight Index Average ("ZARONIA") benchmark by the market due date of June 2026. Bank Gaborone experienced less interest rate volatility while the cost of funding and the management of the interest rate margin improved.

Currency market volatility is anticipated as global inflation and geopolitical uncertainty remain. South Africa is our closest trading partner, and the uncertainty around the stability and strategy of the government of national unity may increase currency volatility and elevate currency risk for our business.

The new treasury system in Bank Windhoek, launched in 2023, allows for real-time market risk management through enhanced limit management and derivatives valuations for margin maintenance on collateral accounts with counterparties. The market risk module continues to be enhanced, with a focus on value-at-risk capabilities, stress testing, and scenario analysis tools. The system will be implemented in Bank Gaborone in 2025.

Governance oversight

Market risk is monitored and managed at each banking subsidiary and Group ALCO, with oversight at the subsidiary and BARCC levels.

More information

Read more about market risk in note 3.3 of the annual financial statements on page 62.

Residual risk

Amber. The built-for-purpose, best-in-class treasury system facilitates better automated processes, real-time information and enhanced risk analytics. However, a couple of items are not fully embedded or fully utilised. Continued enhancements for ever-changing markets remain a priority as we implement the system in Bank Gaborone.

Operations risk

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

How we mitigate this risk

By deliberately choosing to apply the Basel Committee recommendations and best practices, the Group is committed to identifying and assessing its operations risks and continuously implementing the appropriate mitigating measures. Acceptable levels for operations risks are set annually, and the extent of operations risk is calculated and presented in a quarterly risk management report. The collection of operation risk events ensures the effectiveness of the control framework and completes the risk mapping and assessment processes.

Facilities adhere to minimum standards as required by the business and the regulator. All lease agreements are in place and managed according to the internal process when due for renewal.

Future focus areas include:

> Branch optimisation.
> Improved processes to remove variation and ensure customers experience consistent high-quality service.
> Implemented measures to improve our capacity to minimise and absorb losses.
> Customer contact centre capability enhancement.
> Automated cash services.
> Back-office automation.
> New features and channel growth and migration enabled by the #gobeyond programme.
> Implement initiatives to reduce the environmental footprint relating to recycling, electricity usage and water consumption.

Governance oversight

The bank's operations risk team aids daily by supporting, monitoring and challenging the managing of the operations risks. Monthly risk reports are submitted to management Risk Committees for subsidiaries who also report to quarterly subsidiary Board Risk and Compliance Committees. An enterprise-wide risk profile is compiled quarterly from subsidiary reports and submitted to the Group risk committee and Group BARCC.

Priorities for 2024 and progress made

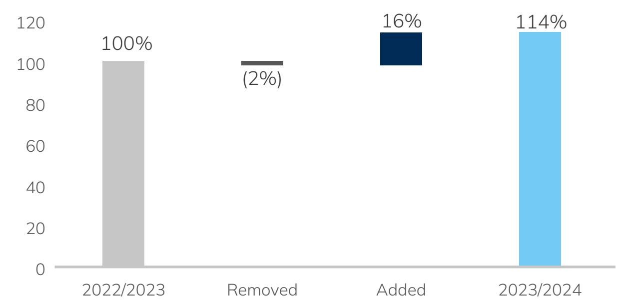
> Business continuity was further strengthened and embedded by implementing digitised checklists and revisiting the contingency and recovery plans for core services, key systems and priority business processes. They are regularly reviewed as part of existing management processes to ensure that continuity strategies and plans remain relevant.
> The #gobeyond programme was implemented for 4 branches, and 3 branches are in the process of implementation.
> The credit productivity model was completed, and the updating of time studies is in progress. Productivity models are being designed for collateral and enquiries.
> The new end-of-day teller process was implemented, first as a pilot at three branches and then rolled out to all branches in December 2023. This resulted in cost savings and a 25% reduction in time spent.
> Processes and procedures were further enhanced by digitising the employee requisition register, which enabled easier approval, management, and control of advertised vacancies, and the structure register for amending and creating new organisational structures.
> Customer-facing sales and enquiries branch processes were further optimised by incorporating modern technology enablers.
> The PSD 9 CMA regulatory project and the ISO 20022 migration of the SADC RTGS system are payment system enhancements. These projects should be completed by the end of September 2024.
> The instant payment project ("IPP"), a regulatory-led project, is underway.
> The international business centre was enabled on the customer contact centre system to better manage customer queries and analyse data.

Key risk indicators

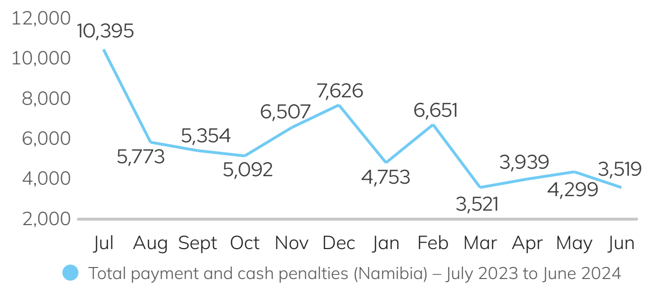
> Service level agreement ("SLA") monitoring to ensure adequate service delivery.
> Business process management.
> Operational losses.
> Payments and cash penalties.
> Trained firefighters and fire marshals.
> Back-up sites tested.

New Group-wide processes were adopted while other processes were removed to retain stable, optimised operations.

% of processes



Bank Windhoek payment losses due to Namibia penalties (N$)



Residual risk

Amber. Our digitisation programme continues to introduce changes in our operational practices and procedures, and these changes must be managed to ensure a safe and responsible transition.

People risk

This is the risk of failure to achieve the Group's business objectives due to failures arising from people-related matters.

People risk has the potential to result in significant losses on brand, reputation, morale, and revenue. People risk is inherently intertwined with all other risk categories, such as compliance, technology, and operational risks, because human actions and decisions are central to managing these areas. For example, compliance risks arise from the need for employees to understand and adhere to regulatory requirements, while technology risks hinge on employees' proficiency and vigilance in mitigating cyber threats and maintaining systems. Operational risks are largely influenced by human error, fraud, and inadequate training.

Given this interconnection, people risk is critical to acknowledge because the risk management effectiveness in any domain ultimately depends on the capabilities, capacities, behaviour and integrity of the Group's workforce.

Properly managing people risk ensures a foundation of skilled, ethical, and motivated employees who can navigate and mitigate other risks and safeguard the Group's overall stability and success.

How we mitigate this risk

In the financial sector, managing people risk is paramount. People risk encompasses various categories that can significantly impact the Group's operations, reputation, and financial stability. Below, we elaborate on each sub-category of people risk, detailing the challenges, impacts, and mitigation strategies associated with them.

People risk sub-category	Impacts	Mitigation strategies
Talent acquisition and retention	Failure to attract and retain top talent leads to increased recruitment costs and a loss of institutional knowledge. This can result in disruptions to service delivery, lower employee morale and decreased productivity. The Group may also struggle to innovate and maintain a competitive edge.	To address these challenges, the Group implements competitive compensation packages, offers various career development opportunities, and fosters a positive work environment. Investing in employer branding and creating a compelling employee value proposition contributes to attracting top talent. Additionally, providing opportunities for professional growth and ensuring work-life balance assists in the retention of high-value employees.
Leadership and succession planning (Capability)	Poor succession planning can lead to strategic misdirection, loss of confidence among stakeholders, and disruption of business continuity. This can negatively impact the Group's performance and long-term success.	Leadership development programmes and clear succession plans are critical. Regular leadership evaluations and mentoring can help identify and prepare future leaders. Ensuring that there is a pipeline of qualified candidates ready to step into leadership roles provides stability and continuity.
Cultural and conduct risk (Behaviour)	Poor organisational culture and conduct can damage the Group's reputation, reduce employee engagement, and lead to increased turnover. It can also result in legal liabilities and financial losses.	Strong governance and clear ethical guidelines promote a culture of integrity and transparency. Regular training on corporate values and ethical standards, along with mechanisms to report and address misconduct, aligns the organisation's culture with its values. Encouraging open communication and fostering a positive work environment enhances employee morale and reduces cultural and conduct risk.
Health and Wellness risk	Poor health and wellness practices can lead to increased absenteeism, reduced productivity, potential legal liabilities, and harm to the Group's reputation as an employer.	Comprehensive health and safety policies, wellness programs, and support for mental health are essential. Regular training on safety procedures, providing ergonomic workspaces, and promoting a healthy work-life balance can help ensure employees' well-being.
Diversity and Inclusion risk (Behaviour)	Lack of diversity and inclusion results in loss of talent, limited perspectives in decision-making, and potential regulatory issues. It can also harm the Group's reputation and reduce employee engagement.	Implementing diversity and inclusion initiatives, regular training, and fostering an inclusive workplace culture are essential. Encouraging diverse hiring practices, providing equal opportunities for all employees, and promoting an inclusive environment can mitigate diversity and inclusion risk. Regular assessments and feedback mechanisms also ensure that the Group is continuously improving its diversity and inclusion efforts.
Employee engagement and morale risk	Low employee engagement and morale can result in reduced productivity, increased employee turnover, and lower overall performance, negatively impacting the Group's financial performance and reputation.	Regular feedback mechanisms, recognition programmes, and initiatives to enhance employee satisfaction are essential. Providing opportunities for career growth, encouraging open communication, and fostering a positive work environment help improve employee engagement and morale. Ensuring that employees feel valued and recognised for their contributions can reduce turnover and enhance overall performance.

Key risk indicators

To effectively manage the Group's people risk, the following key risk indicators are used to monitor and assess various aspects of the human capital dimension:

Talent acquisition and retention

- Turnover rate (Percentage of employees leaving the company within a given period): Remains stable.
- Internal promotion rate (Percentage of leadership roles filled through internal promotions): 40%*

Leadership

Leadership stability (Average tenure of leadership team members): Average tenure – 11 years.*

Cultural and conduct

- Industrial relation cases (Frequency and severity of employee misconduct cases): Decreased by 15% for the review period.*
- Employee grievances (Number of formal grievances filed by employees): 10 cases*

Diversity, equity and inclusion ("DE&I")

Diversity metrics (Representation of previously disadvantaged and disabled employees within the workforce): 80% previously disadvantaged and 1% disabled.*

Employee engagement and morale

- Engagement survey scores (Results from regular employee engagement surveys): Slightly decreased from 86% to 84%, and the "fully engaged" score decreased by 3%. This is still above the industry benchmark, and action plans have been formulated to address areas of concern.

* Group entities located in Namibia.

Governance oversight

Detailed risk reports are submitted to risk committees post engagement with the respective people risk owners in the respective entities. A quarterly risk report is compiled from subsidiary information and submitted to the Group risk committee, BARCC and the HR committee.

Priorities for 2024 and progress made

In 2024, we strengthened our Organisational Framework and fostered a positive workplace environment by implementing a Talent Investment Framework and an Integrated Leadership Framework and worked on a standardised succession process. We have applied Group-wide uniform performance management principles and emphasised a culture embracing DE&I. Our young talent programme was expanded to attract and nurture future leaders. Additionally, we implemented a comprehensive ethics awareness programme to reinforce integrity and ethical behaviour.

Talent acquisition and retention

- Plans to improve our employer brand through carefully designed brand campaigns.
- Talent reviews, assessments and identification.
- Succession planning coupled with internal and external talent mapping.
- Talent mobility strategies in place.

Leadership and succession planning

- We have developed and are implementing a Leadership Capability Framework incorporating leadership mindsets for sustainable business impact. This framework will influence organisational structure, practices, policies, and procedures, influencing strategy, performance, talent, skills, culture, and employee engagement.
- Offer leadership development opportunities, including workshops, coaching sessions, and micro-learning modules for individuals, teams, and all employees.

Culture

- Processes in place to promote and measure The Capricorn Way and its associated behaviours.
- Outline conduct and ways of work shared on the MyCapricorn employee app and at onboarding sessions.
- Numerous policies clearly define ethical requirements.

Promoting an ethical culture

- Driven by the ethics strategy and supported by the Group Code of Ethics and Conduct Policy.
- Reviewed periodically to identify improvement areas and inform the enterprise-wide ethics strategy and programme.
- Informed ethics management plans for remediation.
- Transparency on remuneration practices, processes to address unfair treatment and report grievances.
- Channels available for employees to seek information on ethics.
- An independent, anonymous whistleblowing line operated by Deloitte for reporting ethical issues, fraud, and unlawful conduct.

Read more about our ethics approach in our conducting business in the right way material matter on page 27 and the BSEC report on page 68 of the integrated annual report.

DE&I

- We audited our people practices and processes to ensure that they are equitable.
- We train managers on DE&I and provide tools to minimise biased people decisions.
- Group-wide awareness initiatives around DE&I with a focus on disability.
- Encourage the use of Capricorn conversation cards to promote connectedness and inclusion.
- Plans to increase representation of people with disability and women in the Group's senior management.

Employee engagement and morale

- Engagement survey execution in different entities.
- Our banks' managing directors encourage employees to speak up about the impediments to their career growth.
- Group human capital and Bank Windhoek human capital business partners have shared granular feedback and possible ways to enhance the employee experience with departments.

Outlook for this risk

As the financial industry continues to face rapid technological advancements, regulatory changes, and increased competition for talent, the Group must adapt its risk management strategies to address these evolving challenges. This will require an emphasis on the strategic and proactive management of human capital.

Residual risk

Green with a stable trend.

Reputation risk

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

How we mitigate this risk

A Reputation Risk Framework is embedded, which includes a strategic stakeholder engagement plan and crisis communication plan.

The board has a clearly defined and communicated qualitative risk appetite statement for reputation risk. Responsibility for monitoring and managing reputational risk falls with the PRO for each entity. Events which may impact reputational risk are identified and actively monitored. The Group PRO is responsible for the maintenance and evolution of the Reputation Risk Framework and provides each entity's PRO with reputation risk management best practices, case studies and tips on dealing with a crisis from a communication and media perspective.

In 2024, the Group contracted external consultants to assist its banks in dealing with reputational issues. A close working relationship has been established with the Group's cyber risk department to manage reputational risks related to the Group and its subsidiaries' social media and online presence. Monthly reports and assist in adjusting strategies and responses to mitigate potential reputation risks.

The Group mitigates reputation risk by:

- Continuously monitoring compliance with the brand manual (visual identity guidelines) and brand endorsement strategy among all entities.
- Conducting dipstick brand and stakeholder engagement audits to assess the brand's health and stakeholders' perceptions.
- Implementing the brand and communication strategy to address the risks and opportunities associated with the Capricorn Group brand following the outcome of the brand audit.
- Annually reviewing the Group's crisis communication plan.
- Implementing and enhancing the Group's strategic stakeholder engagement plan with inputs from ongoing stakeholder engagement.
- Enhancing internal reputation risk awareness with a focus on cybersecurity risks.
- Using external consultants to monitor the Group and subsidiaries' online presence, including traditional and social media channels.
- Using external consultants to assist in developing crisis communication plans.
- Appointing approved spokespersons for the Group and subsidiaries each year.
- Building a strong ethical culture through employee communication and engagement initiatives to create awareness of the anonymous tipoff line and encourage employee participation in anonymous ethics surveys.
- Using the Capricorn Foundation's activities and the Changemaker programme (employee community outreach initiatives) to build a positive reputation for the Group as Connectors of Positive Change.

Key risk indicators

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

More information

Read more in the stakeholder section on page 14 and the BSEC report on page 68 of the integrated annual report.

Governance oversight

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

Outlook for this risk

Financial institutions, and banks in particular, are under increased scrutiny from customers and the broader society, compounded by worsening socioeconomic conditions. The perceptions of banks and sentiments shared about our banking subsidiaries are closely monitored and appropriately responded to.

The changing landscape of reporting requirements and investors' expectations on environmental, social and governance ("ESG") disclosures is closely monitored to ensure that the Group is meeting stakeholder expectations.

Reputation risk is expected to remain stable. The nature of reputation risk requires us to be prepared for a wide range of eventualities. Capricorn Group has sound policies, processes and tools to manage reputational risk within our stated appetite.

Residual risk

The risk profile remains green and stable as the control framework is adequate and is operating effectively.

Priorities for 2024 and progress made

- The implementation of the Reputation Risk Framework was monitored following its enhancement.
- The Group's Corporate Affairs Manager, who supports the Group PRO, completed a comprehensive risk culture building certification programme.
- The Group's largest subsidiary, Bank Windhoek, contracted a public relations consultancy to support the Bank in addressing negative perceptions around banks in general.
- Continued improvement of the Group PRO oversight of reputation risk management and enhancement of subsidiaries' reporting following training interventions.
- Continued visible improvement in entities' compliance with the Group's brand manual (visual identity guidelines).
- The Group's strategic stakeholder engagement plan was reviewed and enhanced following feedback from stakeholders through the dipstick stakeholder audit completed in 2023.
- A comprehensive Group-wide stakeholder engagement audit was commissioned in 2024 and will inform enhancements to the stakeholder engagement plan and Reputation Risk Framework.
- Internal awareness was created on reputational risks, and Group PRO oversight in managing and reporting reputation risk issues was increased.
- The communication plan, developed to build a strong ethical culture with the theme "Do the right thing," increased awareness of ethical behaviour.

Technology risk

Technology risk is the risk that the strategic technology investment is not aligned with the Group's purpose or business strategy or that technology will catastrophically fail to deliver secure IT services that provide critical business services.

How we mitigate this risk

The Technology Risk Framework sets out the governance, policies, guidance, and procedures for the Group's IT risk management. The framework was revised in 2024 with major updates to the level 2 technology risks, which include asset management, privileged account management, vendor management, and non-compliance with IT standards and policies.

The framework aims to ensure that the current technology risks are adequately identified, analysed, assessed, and treated following the applicable legislation, industry and international standards such as COBIT, ISO 27005, 31000 and the Payment Card Industry Data Security Standard ("PCI-DSS"), to ensure compliance and increase the benefits derived from the use, ownership, operation, and adoption of technology. Key technology controls and risk indicators implemented to adequately manage technology risks are managed within the framework. Technology risks are also managed and reviewed through monthly information technology and security risk committee meetings.

The GBITC governs the Group IT function, and the executive management responsibilities vest with the Group Chief Information Officer ("Group CIO"), who is also the Group PRO for technology risk. The cyber security, IT risk, and compliance teams collaborate with the technology Group PRO and subsidiary PROs to identify risks. These are communicated to managers who are responsible for executing remediation plans. An effective control environment was created to identify critical issues and deal effectively with severe incidents. Risks are tracked and reported within the risk governance structures. The Group employs a standardised architecture to combat threats and reduce the effort required to support and maintain all systems.

The Group mitigates technology risk by:

- Formal governance and policy regarding technology risk.
- A framework that outlines the key risks, controls, and key risk indicators.
- Monitoring of the risk through formal reports, including key risk indicators with thresholds.
- Continuing to enhance technology key risk indicators.
- Ensuring business continuity by enhancing technology infrastructure resilience.
- Regular software and hardware updates to mitigate the risk of security breaches or system failures.
- Enhancing our development, security, and operations capabilities.
- Foster a culture of continuous learning through various training interventions, reinforcing our commitment to relentless improvement.

Key risk indicators

- Enhancing IT system availability and stability, minimising outages and ensuring seamless access for customers.
- Disaster recovery capabilities. Enhancements in our DR capabilities improved our resilience.

Governance oversight

Technology risks are reported to subsidiary management risk committees. Quarterly risk assessment reports, stability dashboards, and project portfolio management reports are submitted to the subsidiary board risk and compliance committees, the Group risk committee and BARCC. Material technology risks are reported to the GBITC. The relationship between the banks and the Group is managed in terms of a formally agreed SLA, which is monitored by the Group IT SLA management forum.

More information

Read more about IT governance on page 20 of the governance report.

Residual risk

Amber with a stable trend. Realising the future state architecture, in line with the strategy, is a continuous process through various strategic and enabling initiatives.

Priorities for 2024 and progress made

- We continue to prioritise patching and vulnerability management to bolster system security and overall stability.
- Developed effective IT employee retention and key man dependency initiatives. These include capacity building, succession planning and talent development.
- Further enhance agile and platform execution. The IT operating model drives value for the Group and its subsidiaries, as demonstrated by the delivery of the various strategic initiatives.
- Increased adoption of cloud services within the applicable regulations.
- Leveraging the existing architecture by enabling the transformation of the distribution channels.
- Leveraging both established and emerging architecture frameworks by accelerating data, digitalisation and automation initiatives. This includes state-of-the-art advances in automation and security.
- Enhanced our software lifecycle management practices.

Outlook for this risk

The outlook is amber. Through our comprehensive IT risk and governance, we strive to minimise the potential impact of IT risks and ensure the privacy, confidentiality, integrity, and availability of our critical information assets. We continuously enhance our practices to adapt to evolving technology threats and industry trends.

Generative AI is transforming all facets of the work environment while boosting productivity. This introduces new risks and addressing these risks will involve implementing new rules, robust data protection measures, ensuring transparency, and adhering to relevant privacy laws and regulations.

#MakePositiveChanges

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Connect with us for positive change

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or send an email to investorrelations@capricorn.com.na