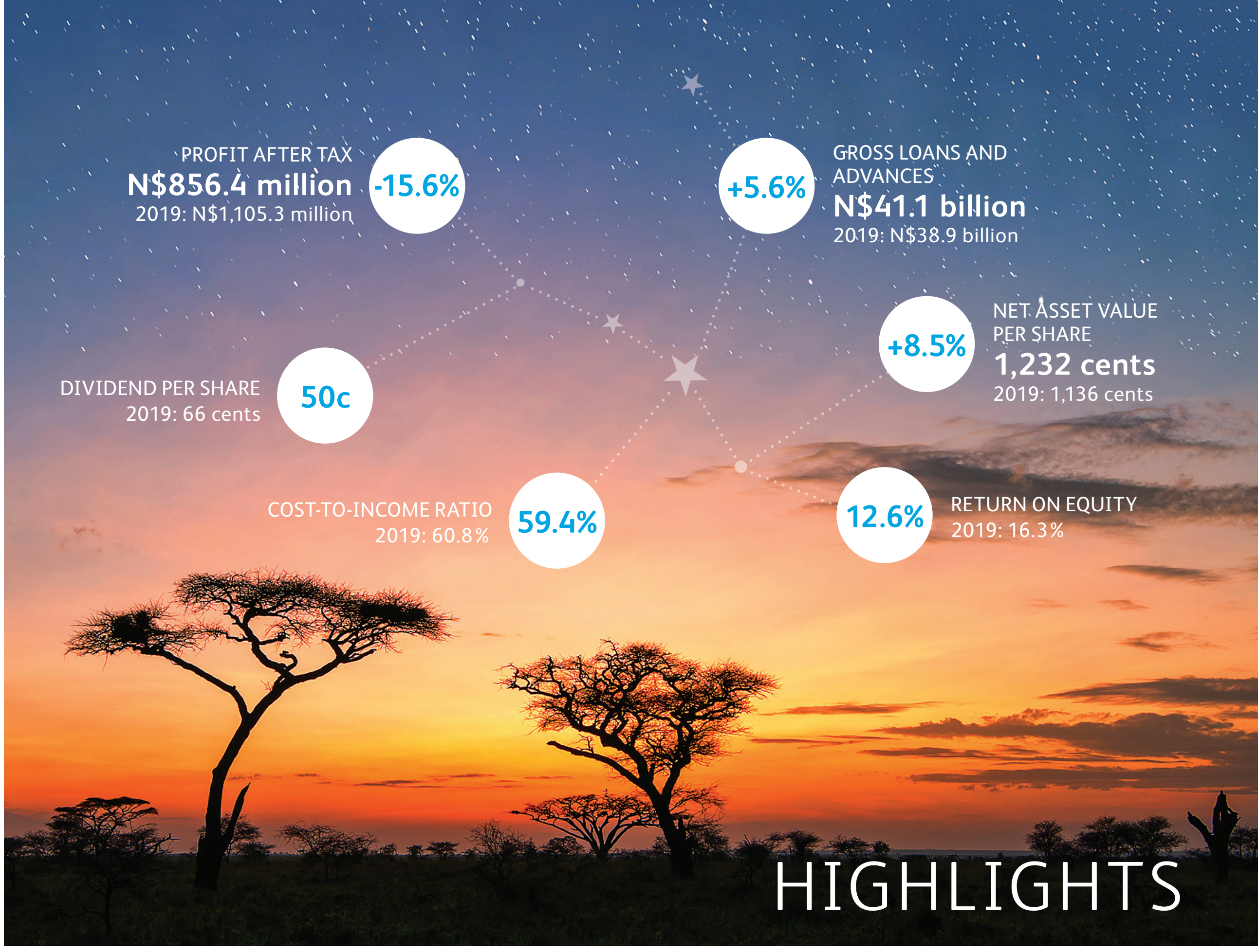
Capricorn Group

ANNUAL RESULTS

for the year ended 30 June 2020



Capricorn Group started the 2020 financial year with confidence and delivered positive half year results, despite continuing difficult economic conditions in Namibia and Zambia. Capricorn Group's operating profits were significantly impacted by the COVID-19 pandemic during the last quarter of the financial year, with full-year profit after tax contracting by 15.6% to N$856.4 million.

Following three years of losses reported by Cavmont Bank in deteriorating market conditions in Zambia, Capricorn Group accepted the offer by Access Bank Zambia to acquire Cavmont Bank. Agreements for the sale and subsequent merger of Cavmont Bank with Access Bank Zambia have been concluded subject to the requisite regulatory approvals. Consequently, the losses made by Cavmont Bank in the current and prior period are disclosed under discontinued operations. The loss reported by Cavmont Bank has increased significantly from N$19.9 million to N$155.7 million mainly as a result of once-off restructuring costs, abnormal foreign exchange losses and significantly higher impairment charges. The current year loss also includes the write off of a N$63 million deferred tax asset in anticipation of the sale of Cavmont Bank to Access Bank Zambia.

Profit after tax from continuing operations, i.e. excluding the Cavmont Bank losses, amounts to N$1,012 million, 2.2% lower than the prior year. The review of the Group financial performance below is based on the results of continuing operations.

GROUP FINANCIAL PERFORMANCE

- **Net interest income** and interest margins came under significant pressure during the last quarter of the financial year with aggressive interest rate cuts of 225bps and 50bps by the central banks of Namibia and Botswana respectively. Interest rates on loans and advances reduced immediately while there was a lag in repricing liabilities. It was also not possible to further reduce rates on a substantial part of the two banks' deposit books. As a consequence, the net interest margin of Bank Windhoek decreased by 0.3%. The margin squeeze was contained to some extent by active and very effective management of the cost of funding. Notwithstanding the aforementioned and thanks to growth in the banks' interest-earning assets and an 18.4% increase in the net interest income of Entrepo, the Group's net interest income before impairment increased by 2.3% year-on-year to N$2.08 billion.
- **Impairment charges** increased by 146.1% to N$304.4 million for the year under review. Almost half of the increased charges is a direct result of stressed economic overlays, reflective of a severely depressed economic outlook, applied to the expected credit loss models. The balance of the increase is mainly due to the prudent approach applied by the Group in determining expected credit losses given the current economic circumstances where many customers are experiencing financial distress.
- Despite the difficult operating environment and the material impact the COVID-19 lockdown measures had on financial activities across the region where we operate, the Group's **non-interest income** increased by 11.7% year-on-year. Growth was mainly attributable to a 7.7% increase in income from electronic channels, asset management fee income increasing by 14.6% to N$135.4 million and net insurance income increasing with 18.1%. This emphasises the success of the Group's diversification strategy in cushioning the impact of the steep interest rate cuts experienced during the last quarter of the financial year.
- The bulk of the Group's operating expenses are fixed costs that could not be adjusted in line with lower income in the wake of the pandemic. Additionally, expenses denominated in US dollar, such as software licence and systems support fees, increased following a significant weakening in the N$ exchange rate during the last quarter. The Group nevertheless contained the increase in operating expenses to 3.4%. This bears testimony to the Group's ability to contain costs during adverse economic conditions and shocks such as the COVID-19 pandemic.

BALANCE SHEET POSITION

- The Group maintained its prudent approach to liquidity management with liquidity continuing to take preference over maximising profits. Following the declaration of the global pandemic, liquidity received increased focus and Capricorn Group's liquidity position remained healthy throughout the period impacted by COVID-19 as reflected by the 16.2% increase in the Group's liquid assets. The Group managed to grow funding by 6.6% to N$46.8 billion as at 30 June 2020, while also diversifying its funding base and increasing the contribution of cheaper sources of funding, resulting in a 47 basis points reduction in average cost of funding, excluding the effects of the rate cuts.
- **Gross loans and advances** increased by 5.6% to N$41.1 billion. Bank Windhoek's gross advances increased by 4.9% to N$33.4 billion, which is well above the growth in private sector credit extension of 2.8%. The growth was mainly in commercial loans. Bank Gaborone increased gross advances by 11.5% to P4.7 billion as the bank continued to grow its market share, mainly in commercial and mortgage loans. Entrepo's loans and advances increased by 19.0%.
- Asset quality has always been a key focus of the Group. As a consequence of the challenging economic environment, exacerbated by the impact of COVID-19, the Group's total non-performing loans (NPL) increased by 19.0% to N$1.9 billion over the financial year. The Group's NPL ratio increased from 4.1% to 4.7%. Due to the significant increase in provision for expected credit losses, the NPL coverage ratio increased from 47.3% to 49.0%.
- The Group remains well capitalised with a total risk-based capital adequacy ratio of 14.7% (June 2019: 14.9%). This is well above the minimum regulatory capital requirement of 10.0%. The strong **capital** position will stand the Group in good stead while navigating the perfect storm brought about by the COVID-19 economic shock.

OUTLOOK

The global economic outlook is bleak with most economies projecting significant negative growth. Namibia and Botswana have revised their forecasted contraction in GDP for the current fiscal year to 8.5% and 8.9% respectively. Unemployment rates are reaching new highs and business closures continue unabatedly, increasing the financial distress of individuals and businesses alike. As a result, we expect an increase in customer defaults with impairment charges remaining high. Net interest revenue, especially in the case of Bank Windhoek, will be significantly lower in the next year following the aggressive cuts in interest rates. Bank Gaborone is expected to be less impacted and the expected appreciation of the Pula against the Namibia dollar will also contribute positively to earnings. Non-banking subsidiaries are not expected to be negatively impacted and should cushion the overall negative impact on the Group's results. We have also taken decisive action to address areas of underperformance by agreeing to the disposal of our loss-making operations in Zambia and revisiting the operating model of Capricorn Capital.

FINAL DIVIDEND

The Group declared a final dividend of 20 cents per ordinary share. Considering the interim dividend of 30 cents per ordinary share, this represents a total dividend of 50 cents per ordinary share (2019: 66 cents per ordinary share). The total dividend per share for the year under review is 24.2% lower than the total dividend per share declared for the previous financial year. We believe that the total dividend balances prudency with a fair dividend yield for shareholders.

In determining the final dividend, the Group has taken a number of factors into account, which include:

a) preservation of capital and liquid asset positions given not only the current economic environment, but also, more importantly, the negative future economic outlook;
b) the call by bank regulators to restrict dividend payments. As a consequence, Bank Windhoek's final dividend to the Group was 45% lower than the previous year; and
c) the need of our investors for cash returns in a low interest rate environment and a depressed economy where income and earnings are under severe pressure.

- Last day to trade cum dividend: 9 October 2020
- First day to trade ex-dividend: 12 October 2020
- Record date: 16 October 2020
- Payment date: 30 October 2020

	Year ended 30 June 2020 Audited N$'000	Year ended 30 June 2019 Audited N$'000	% Change
EXTRACT OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME			
Net interest income	2,080,899	2,033,746	2.3%
Impairment charges	(304,371)	(123,698)	146.1%
Net interest after loan impairments charges	1,776,528	1,910,048	(7.0%)
Non-interest income	1,424,711	1,275,253	11.7%
Operating expenses	(1,900,877)	(1,838,732)	3.4%
Operating profit	1,300,362	1,346,569	(3.4%)
Share of joint arrangements and associates results after tax	66,528	76,332	(12.8%)
Profit before tax from continuing operations	1,366,890	1,422,901	(3.9%)
Taxation	(354,795)	(387,750)	(8.5%)
Profit from continuing operations	1,012,095	1,035,151	(2.2%)
Discontinued operations	(155,683)	(19,852)	684.2%
Profit after tax	856,412	1,015,299	(15.6%)
Headline earnings	804,333	929,323	(13.4%)
EXTRACT OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Cash and balances with central bank	909,117	1,572,616	
Other financial assets	11,797,250	9,364,270	
Loans and advances to customers	40,078,622	38,049,583	
Other assets	2,035,743	1,691,486	
Assets held for sale	1,517,394	–	
Total assets	56,338,126	50,677,955	
Capital and reserves attributable to ordinary shareholders	6,308,105	5,815,396	
Non-controlling interests	421,959	345,382	
Deposits	39,323,264	36,984,725	
Other funding	7,472,936	6,913,049	
Other liabilities	1,314,974	619,403	
Liabilities held for sale	1,496,888	–	
Total equity and liabilities	56,338,126	50,677,955	
Net asset value per share (cents)	1,232	1,136	
Basic earnings per share (cents)	148.6	181.6	
Headline earnings per share (cents)	157.2	181.5	

OTHER DISCLOSABLE INFORMATION

ADDRESS

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(Incorporated in the Republic of Namibia)
(Date of Registration: 5 September 1996)
(Registration Number: 96/300)
Share code: CGP ISIN: NA000A1T6SV9

BASIS OF PRESENTATION

The audited annual financial statements of Capricorn Group Ltd for the year ended 30 June 2020 from which this information is derived, have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Namibia. This results announcement is the responsibility of the directors, and is extracted from the audited annual financial statements, but is not itself reviewed or audited.

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