# 2018 INTEGRATED ANNUAL REPORT

Capricorn Group

# CONNECTORS OF POSITIVE CHANGE

FIVE YEARS LISTED ON
5 yrs
NAMIBIAN STOCK EXCHANGE

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

This report provides a view of the performance of Capricorn Investment Group (Capricorn Group or the group) for the financial year against the backdrop of the five-year period since listing as Bank Windhoek Holdings on the Namibian Stock Exchange on 20 June 2013.

## Key indicators of financial value created over the five-year period

**+96.9%**
growth in the share price

**N$1.3 billion**
paid in dividends

**+13.6%**
compounded annual growth rate in profit after tax

**N$3.4 billion**
paid in remuneration

**N$2.3 billion**
paid in taxes

**130%**
total return per share since listing

Read more about the ways in which the group created empowerment value through transformation in the case study on page 7.


# CONTENTS

# 01 INVESTMENT CASE

## A Namibian success story

**2013**

**15/16 MAY** – **BWH announce public share offer**

Bank Windhoek Holdings (BWH) announced its proposed listing on the Namibian Stock Exchange (NSX) through a prospectus that offered all stakeholders, including previously disadvantaged Namibians, employees, customers and members of the public, an opportunity to acquire BWH shares and thereby participate in the ownership of the BWH group.

**24 MAY** – **BWH pre-listing celebration**

BWH hosted an event at Safari Hotel Windhoek, attended by 450 people including the founding shareholders, members of government, the business community and civil society.

**13 JUNE**

5,827 applications were received for a total of 153,177,400 shares. The offer was 3.5 times oversubscribed, and the total value of applications received: N$1.34 billion.

**20 JUNE** – **BWH listing and bell-ringing function**

Celebration of the successful listing of BWH on the NSX with a symbolic “ringing of the bell”.

**2017**

**JAN** – **Capricorn Group acquired the controlling shareholding in Bank Gaborone and Cavmont Bank.**

Capricorn Group acquired the controlling shareholding of 68.7% in Capricorn Investment Holdings (Botswana) Limited, which in turn holds 100% of the share capital in Bank Gaborone. Capricorn Group also bought 97.9% of the shares in Cavmont Capricorn Holdings Zambia which owns 100% of the share capital of Cavmont Bank. These transactions allowed for more synergies and collaboration between the group companies.

**16 MAR** – **Launch of The Capricorn Way as a tool and embodiment of the shared culture to which the group aspires.**

**27 MAR** – **Capricorn Asset Management (CAM) brand refreshed in line with the monolithic brand. The unit trusts were rebranded from Bank Windhoek Unit Trusts to Capricorn Unit Trusts.**

**6 APR** – **Bank Windhoek brand refreshed in line with the monolithic brand architecture.**

**18 APR** – **Capricorn Private Wealth launched internally**

**12 MAY** – **Successful GIPF transaction**

The Government Institutions Pension Fund (GIPF), the largest institutional investor in Namibia, acquired a 26% interest in the issued ordinary shares of Capricorn Group.

**30 JUNE** – **The retirement of Koos Brandt and appointment of Johan Swanepoel as chairman**

Koos Brandt retired as chairman of the boards of Bank Windhoek and Capricorn Group on 30 June 2017, but remained on these boards as non-executive director. He is also the chairman of Capricorn Investment Holdings(CIH). CIH holds 40.7% of the shares in Capricorn Group. Johan Swanepoel, the then vice-chairman of Bank Windhoek and Capricorn Group, became the chairman of these boards as from 1 July 2017.

**19 OCT** – **Refreshed Bank Gaborone brand launched**

**15 NOV** – **Capricorn Group scoops Regional Integrated Reporting Award**

Capricorn Group won the Regional Company Award at the Annual Integrated Reporting Awards of 2017, hosted by Chartered Secretaries Southern Africa in partnership with the JSE Limited.

**2014**

**1 JAN**

BWH Limited acquired the entire issued share capital of Capricorn Asset Management (Proprietary) Limited effective 1 January 2014

**JULY**

Main Strategic Themes 2014 – 2017 formulated

AsOne strategic focus for 2014 – 2017:

- Value created by offerings to customers (CVP)
- Value created by reciprocal employee-employer handshake (EVP)
- Loyalty vested in the brand through stakeholder engagement
- Channels and digitisation for unique customer experience

**2015**

**2016**

**JUNE**

Monolithic brand architecture of the group approved. BWH name change to Capricorn Group approved by the board.

A need was identified to establish the group as a well recognised and respected regional brand and, in turn, one that supports local brands. This necessitated the development of a clear and well-defined brand architecture and a coordinated and integrated framework, to maximise the group's brand equity. A monolithic brand architecture journey was embarked upon to simplify and refine the group's brand architecture. This approach inspired the name change and a new visual identity that will be applied to all group entities. The decision to rebrand has opened up exciting possibilities and signalled the birth of a value-driven brand.

**20 SEPT**

First integrated report released

**22 SEPT**

Capricorn Group brand launched with new brand values and brand proposition.

**2018**

**1 JAN**

Capricorn Group acquired a stake in Entrepo

Capricorn Group acquired a 55.5% shareholding in Entrepo Holdings (Proprietary) Limited (Entrepo), a focused financial services group providing microlending and credit protection products in Namibia since 2014.

Capricorn Capital starts operating

Capricorn Capital is a newly established southern African corporate finance firm with extensive investment banking experience and expertise. It is a wholly owned subsidiary of Capricorn Group.

Capricorn Group acquired a stake in Nimbus

Capricorn Group acquired a 18.3% (increased to 30% after year end) interest in Nimbus Infrastructure Limited (Nimbus), listed on the NSX. Nimbus is focusing its investment strategy on information and communications technology companies in sub-Saharan Africa.

**APRIL**

Launch of Capricorn Group SA

# Capricorn Group's investment case

Capricorn Group is a leading Namibian-owned financial services group listed on the NSX. The group creates sustainable value in the following ways:

## A diversified group:

- With operations in Namibia, Botswana, Zambia and South Africa, Capricorn Group is a diversified regional financial services group that provides attractive and sustainable returns for shareholders. The group delivered an average annual return on equity of 20.8% and a compound annual dividend growth rate of 12.7% over the past five years.
- The group has a regionally diversified revenue stream and a steady record of new product and service launches, which reduces economic risk and provides opportunities for growth in new geographic areas.
- Capricorn Group is diversified with interests, not only in banking, but also in asset management, insurance and microfinance through Capricorn Asset Management (CAM), Sanlam Namibia Holdings (Pty) Ltd (Sanlam Namibia), Santam Namibia Ltd (Santam Namibia) and Entrepo Holdings (Proprietary) Limited (Entrepo).
- The group has also diversified outside of financial services during 2018 following its investment in Nimbus, a telecommunication and technology investment company listed on the NSX. This positions the group well to benefit from the convergence between telecommunications and financial services combined with strong growth in demand for data services.

## Scale and reputation:

- Bank Windhoek, the group's flagship brand, is the largest locally owned bank and the second largest commercial bank in Namibia. Bank Windhoek's scale is evident from its network of 55 branches and agencies, 121 automated teller machines (ATMs) and 228 Cash Express ATMs in Namibia.

## Stability and compliance:

- Two strong shareholders of reference ensure stability, liquidity and access to capital. They are the GIPF, the largest institutional investor in Namibia with a net asset value of approximately N$100 billion, and Capricorn Investment Holdings (CIH), the founding holding company of Bank Windhoek, established in 1982.
- Capricorn Group retained its credit rating of AA(NA) and A1+(NA) for the long term and short term respectively with a stable outlook.
- The group remains well capitalised with a significant buffer above the minimum capital requirements.

## Shared value creation:

- Since listing on the NSX five years ago, Capricorn Group has created significant value for shareholders, employees, government and strategic partners. It has delivered N$128.7 of dividends to empowerment beneficiaries through Nam-mic Financial Services Holdings (NFSH) since 2013. Read more in the case study on page 7.
- The Capricorn Group share price has increased from its public offer price of N$8.75 at listing in June 2013 to N$17.23 on 30 June 2018, thereby achieving a compound annual growth rate of 14.51%.
- 8.9% of direct economic value created in 2018 – at a total value of N$485 million – was distributed to government in the form of taxes, levies and duties.

## Governance, ethics and transformation:

- Since rebranding the group in 2016, a new corporate identity and culture have been embedded through The Capricorn Way, which encourages exceptional performance. The Capricorn Way outlines the group's values as a unique set of behaviours and beliefs that inspire employees to be connectors of positive change.
- With a 10% shareholding by NFSH, the group's strategic broad-based black economic empowerment (BBBEE) partner, Capricorn Group is proud to be part of one of the most successful broad-based black economic empowerment initiatives in Namibia. Read more in the case study on page 7.
- Capricorn Group has a strong governance culture, entrepreneurial spirit and commitment to transparency.

# 2018 SALIENT FINANCIAL FEATURES

**TOTAL COMPREHENSIVE INCOME**

**+5.9%
TO N$986M**

(2017: N$931M)

**NET ASSET VALUE**

**+11%
TO N$5.6BN**

(2017: N$5,1BN)

**RETURN ON AVERAGE EQUITY**

**17.3%**

(2017: 19.5%)

**PROFIT AFTER TAX**

**+1.8%
TO N$934M**

(2017: N$918M)

**CAPITAL ADEQUACY**

**15.4%**

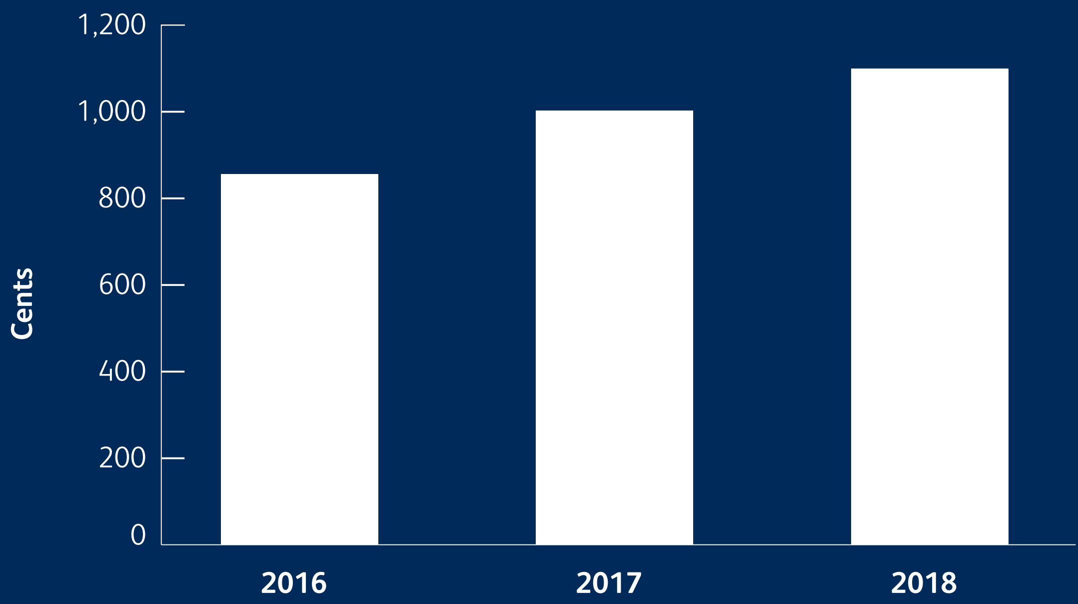
(2017: 16.6%)

**DIVIDEND PER SHARE**

**60 CENTS**

(2017: 68 CENTS)

Net asset value per share (cents)



## Capricorn group acting as a connector of positive change

The past year offered many opportunities for Capricorn Group to act as a connector of positive change, and for employees to contribute and create occasions for these connections to materialise. Examples include the following:

### Connecting business entities with mutual opportunities:

- Through funding and technical assistance obtained from the Sustainable Use of Natural Resources and Energy Finance (SUNREF) initiative, Bank Windhoek was able to connect financial institutions and clients to a range of solar and energy projects that will address some of Namibia's long term challenges. These include N$38 million for a solar plant at Aussenkehr, N$100 million for one at Trekkopje, close to Arandis, N$100 million for a wind farm at Namdeb Elizabeth Bay Diamond Mine, close to Lüderitz, and N$100 million for a solar plant at Okatope, close to Ondangwa.

### Creating connections for support and assistance:

- Through a new partnership with SPES – a Namibian charity established to help less fortunate children and youth step out of poverty through encouragement, education and support – the group funded infrastructure and facilities that will improve learning environments for children and teachers while creating employee volunteering opportunities.
- Through a partnership with Imago Dei, a not-for-profit organisation that aims to bring together the community of needs, with the community of means, Capricorn Group is involved in a number of welfare projects. In addition to financial support, Capricorn Group's Brand and Corporate Affairs team has assisted the Imago Dei team with design, copywriting and events management support.
- Employees are encouraged to volunteer their time to assist the projects supported by the group under the theme "I am a Changemaker".
- Employees joined hands with the Namibia Blood Transfusion Services in its national blood drive to raise critically low levels of blood reserves and educate people about the health benefits of blood donation. During the year under review, employees donated blood 374 times at on-site clinics hosted by our branches to potentially save 1,122 lives.

### Creating conversation opportunities for the group and stakeholders:

- Capricorn Group launched a stakeholder engagement project to gain an external view of matters considered material for continued value creation for the group. Stakeholders from different groups participated in the project across Namibia, Botswana and Zambia. They were, inter alia, invited to share their expectations and concerns about Capricorn Group, and provided input on what they believe is necessary for the group to remain sustainable and create positive change. Read more about this initiative on page 41.
- To contribute to the improvement of financial reporting in Namibia, Capricorn Group hosted a workshop for stakeholders on integrated reporting – highlighting the key content elements and principles – with a high-level introduction to King IV™.

### Connecting business, specialists and government through feedback:

- Capricorn Group provided extensive input and guidance on the new equitable economic empowerment framework (NEEEF). The group's submission connected government with a wide range of experts in Namibia and the region.

### Creating relationships through development and information sharing:

- Capricorn Group hosted "Inspire" Thought Leadership events on a variety of topics including exponential thinking among others.
- Capricorn Group hosted a three-part financial journalism workshop where Namibian media practitioners from the broadcast, print and digital disciplines could improve their financial reporting skills. This included insight into interpreting financial data, understanding accounting, technical financial language and following economic trends. The workshop resulted in collaborative information sharing to educate and benefit the group and its media stakeholders.

### Enabling Capricorn Connectors to influence and share:

- The first Capricorn Connector conference was held in March 2018 with 105 employees from four countries. The Connectors were identified as key influencers who could create awareness around The Capricorn Way and the AsOne 2020 strategy and play a role in shifting the mindset within all Capricorn Group employees to a more future-focused, open, collaborative and regional approach to the business. Read more about this initiative on page 41.

# CASE STUDY:

## SIGNIFICANT FINANCIAL VALUE CONTRIBUTION TO EMPOWERMENT IN NAMIBIA

Capricorn Investment Holdings (CIH) identified Nam-mic Financial Services Holdings (NFSH) as an ideal broad based strategic empowerment partner of the group in 2003. NFSH was, at the time, wholly owned by the National Union of Namibian Workers (NUNW) and a number of trade unions affiliated with the NUNW.

CIH, through a contribution of capital and arrangement of deal finance by Bank Windhoek, facilitated the acquisition by NFSH of a 7.5% shareholding in Capricorn Group (then Bank Windhoek Holdings). CIH also brokered investments by NFSH in Sanlam and Santam and further investments in Capricorn Group. At 30 June 2018, NFSH owned 10.2% of Capricorn Group, 16.4% of Sanlam and 12.0% of Santam. The net asset value of NFSH based on the fair value of its investments amounted to N$1,3 billion at 30 June 2018, making it the most successful and strongest broad-based BEE company in Namibia.

Capricorn Group has distributed N$234.7 million as dividends to NFSH since its inception, with 69% of that amount being for the benefit of more than 93,000 previously disadvantaged Namibians.

NFSH beneficiaries include the members of the Mineworkers' Union of Namibia, the Namibia Public Workers' Union, the Namibia Food and Allied Workers' Union, the National Teachers' Union of Namibia, the Namibia Transport and Allied Workers' Union and the Namibia Farm Workers' Union.

Dividends from all its investments flow to NFSH, which in turn declares dividends that are paid to the respective investment trusts of the union shareholders. Each trust allocates and shares these dividends in terms of its own empowerment and development objectives.

Through these dividends, support is provided to education through bursaries, training, community projects, housing and health programmes.

Empowerment is not effected through dividends only. In collaboration with its strategic partners, NFSH has developed financial services and products for union members, including microloans, life and funeral insurance, short-term insurance and the Nam-mic CellCard, a multifunctional membership card that facilitates banking and loyalty transactions.

According to Walter Don, the chief executive officer of NFSH, the company's dream is to support value creation over the next five years by ensuring that at least one third of its union members own property, have life cover and use a savings instrument.

Capricorn Group is proud of its association and strategic partnership with NFSH and the role it played in the development and growth of NFSH.

**N$1.3bn**
Net asset value

**N$234.7m**
Distributed as dividends

**93,000**
previously disadvantaged Namibians benefited

## Reporting approach and approval

This integrated report, which covers the financial period from 1 July 2017 to 30 June 2018, and which includes all subsidiaries, was prepared and approved according to a set of regulatory and voluntary guidelines, set out on page 107.

The board, assisted by the audit, risk and compliance committee (BARC) and the sustainability and ethics committee (BSEC), is ultimately responsible for the integrity and completeness of this report, which includes the material social, environmental and governance aspects that are related to the group's activities and performance.

The board has applied its collective mind to the preparation and presentation of the report and, accordingly, approved it on 4 September 2018.

**Johan Swanepoel**
*Group chairman*

**Thinus Prinsloo**
*Group managing director*

## Forward-looking statements

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


"We foster a deep passion for inspiring those around us to become catalysts of positive change for themselves, and then for those in their personal spheres of influence."

– Thinus Prinsloo, Group managing director

# 02 LEADERSHIP REPORT

## Capricorn Group is facing a new, low-growth economic reality.

Capricorn Group is operating in a regional financial services environment that is experiencing longer-term structural change. Current macroeconomic challenges will take time to address, which means that low or no growth will become the new reality. For the group, this is most evident in lower levels of return on equity (ROE) after sustained returns in excess of 20% for many years. To ensure that even the current ROE of 17.3% remains sustainable, we have to approach the industry and customers differently.

A further symptom of the new reality is shrinking margins: over the past ten years, the availability of retail deposits decreased, to be replaced by more expensive wholesale funding. This was exacerbated by a decline in lending rates, which resulted in lower interest margins.

With a business model that was traditionally weighted towards lending activities, we recognise that these are under increasing pressure. For this reason, the board has approved the AsOne 2020 Strategy: 2018 – 2020. Our four strategic choices are set out on page 40 and identify the opportunities for Capricorn Group to diversify and dominate in the markets where we compete.

We made several strategic choices during the past financial year to position the business for growth and to better manage our risks. Consequently, the group was able to deliver the following:

| | | | |
|---|---|---|---|
| **1.8%** | **9.6%** | **15.4%** | **60 cents** |
| Profit after tax growth | Net asset value per share growth | Capital adequacy | Dividend per share |

Significant challenges this year related to the deterioration in the Namibian economy and the concomitant strain on business growth and loan repayments, as well as the performance of Cavmont Bank, which did not meet expectations.

## In this environment, our strategic choices guide us to find opportunity in a regional approach, new products and service offerings, while achieving operational excellence and increasing integration between the entities in the group.

## We made several acquisitions to diversify our revenue streams and reduce reliance on interest income.

We have deliberately chosen operational excellence as the way to win in the implementation of our strategy. This informs our corporate culture, our daily choices and organisational design. Operational excellence is the desired outcome following from our four strategic choices, which are set out in detail on page 40.

We disposed of a portion of our shareholding in Visa Inc. as this was not core to the group's business operations or aligned to our strategic choices. The capital from the sale will allow us to invest in high growth future opportunities. Highlights for the past year include the following:

- We acquired Capricorn Investment Holdings' remaining shareholding of 15.6% in CIHB to bring our total shareholding to 84.3%. CIHB owns 100% of Bank Gaborone. The transaction, effective 1 January 2018, was settled in a 50:50 split between cash and equity. Capricorn Group consequently issued 2,306,063 shares on 23 March 2018.
- Capricorn Group acquired a 55.5% shareholding in Entrepo Holdings (Proprietary) Limited (Entrepo). Entrepo is a focused financial services group providing microlending and credit protection products in Namibia since 2014. Entrepo has an attractive share of the government employee market and complements Bank Windhoek's own microlending activities through subsidiary BW Finance, which focuses mainly on union members. The group expects Entrepo to contribute around 15% of the group's profit after tax in future.

- Capricorn Capital started to operate in the first quarter of 2018 and offers investment banking, advisory services and solutions in Southern Africa. This includes corporate finance advice – capital restructuring, mergers and acquisitions – as well as capital fundraising. Potential clients include private and public companies, private equity institutions, impact funds and governments, operating in the region or wanting to enter the region. The business uses a network approach, with a small core team that collaborates with specialist advisors depending on the nature of the client request. Capricorn Capital's model embraces new technology and cross-selling opportunities within the group to ensure cost-effective solutions.
- Capricorn Group is represented in South Africa by Capricorn Investment Group SA, a subsidiary that currently operates a resource centre, which supplements the group's skills capability, especially in IT and project management.

Capricorn Group had a shareholding of 18.3% interest in Nimbus Infrastructure Limited (Nimbus), the first capital pool company to obtain a listing on the NSX on 30 June 2018, which shareholding increased to 30% shortly after the year end. It provides a structure for capital raising and co-investment by institutional and individual investors who are seeking to participate in potential investment opportunities. Nimbus is focusing its investment strategy on information and communications technology companies in sub-Saharan Africa.

Nimbus has a 51.4% shareholding in Paratus Telecommunications (Proprietary) Limited (Paratus Namibia), which provides telecommunications and network services including VSAT solutions, IP products, multi-protocol label switching technology, fourth generation wireless broadband network solutions, wireless data communications and E-Pad solutions. It provides communication, connectivity, carrier, customer, cloud, and cluster services to the public, private and corporate sectors in Namibia.

Paratus Namibia constructed and owns the Trans-Kalahari Fibre (TKF) line, a privately operated fibre cable system, which runs from Walvis Bay, connecting the West Africa Cable System access point in Swakopmund, through Okahandja and Windhoek to the Buitepos border post between Namibia and Botswana. It also connects to Sesheke in Zambia via Ngoma and Katima Mulilo. The line is expected to play an instrumental role in future private sector growth in the ICT sector in Namibia and further into the land-locked countries of sub-Saharan Africa. In 2014 Paratus Namibia launched the first privately owned fibre ring in Windhoek and commissioned infrastructure roll-outs in Swakopmund and Walvis Bay.

The Capricorn Group strategic risk management framework encompasses the systems, processes and controls adopted by the group to identify, assess, monitor, control and report strategic risk. Strategic risks include the uncertainty and untapped opportunities created and affected by internal and external events and/or scenarios that could inhibit the group's achievement of its strategic intent and objectives. The group is overall satisfied that the relevant practices and processes are in place to identify and manage strategic risk.

## We continued integration and alignment between the entities in the group.

Up to this point, each of the three banks in Capricorn Group operated with limited involvement from the centre other than guidance on strategy and risk. However, constraints in the region, including a shortage of specialist skills, are forcing closer integration between the banks, with IT platforms and the need for system consistency being the immediate catalysts. Projects at Bank Windhoek piloting customer-facing initiatives and online banking, together with efficiency improvements that have already delivered results, are being rolled out to the other entities. In this process we recognise that each territory has to meet the requirements of different customers and regulators, who at times differ quite markedly in their demands.

Major progress has been made in aligning compliance and policy processes across the various jurisdictions. A key contributing factor was the decision by the group to subscribe to the Generally Accepted Compliance Principles (GACP), as published by the Compliance Institute of Southern Africa (CISA), to ensure that a common standard is set against which compliance objectives can be implemented and measured across the various banks. In future, compliance officers from all three banks will attend training events organised by CISA which will further aid in establishing a consistent and standardised approach.

In the digital space, the group continues to execute on its multichannel program. Bank Windhoek was the first to launch a smartphone mobile banking application, with Bank Gabarone and Cavmont Bank to now follow suit. Bank Gaborone has already re-platformed its online banking offering and Cavmont Bank is next in line to receive the same platform. Several other strategic digital initiatives are in advanced stages of planning that will further align entities with the group's strategic choices while shaping market sentiment about the group's innovation and technology maturity.

Policy integration was also achieved with policy documents adopted at group level to ensure these apply across all jurisdictions. All group companies have been migrated to the same human resource (HR) and payroll systems.

Bancassurance, as a shared opportunity among group entities, gained significant momentum during the year following the appointment of a dedicated resource. The offering is being driven as a combined effort between Bank Windhoek, Sanlam Namibia and Santam Namibia. Two major initiatives focused on the incorporation of bancassurance into the Capricorn Private Wealth offering and on discounted bank charges to Sanlam and Santam employees, and insurance premium discounts to bank employees. By familiarising employees with the benefits available in the group, we expect a more effective external drive in the longer term. Current bancassurance products on offer include funeral cover, credit life, travel and house-owner insurance.

We have also continued on the journey towards a full monolithic brand architecture. The refreshed Capricorn Asset Management, Bank Windhoek and Bank Gaborone brands are now aligned to the Capricorn Group identity and regular research is conducted to ensure we manage any market or reputational risk in the process.

## Our foundation is strong: a mature governance framework, embedded risk culture and a performance approach guided by The Capricorn Way.

Two new directors, nominated by the GIPF, will be appointed to the board following regulatory approval expected early in the new financial year. Jaco Esterhuyse was appointed as an executive director from 1 September 2018 in the role of financial director. The three new members will contribute to a board that already benefits from members with deep industry experience, a wide network of influence and a strong commitment to ethical behaviour. During the year the board approved an updated Group Code of Ethics and Conduct Policy, which applies to all employees and board members, and participated in an externally facilitated refresher session on ethics. Further board training included a comprehensive presentation regarding the impact of IFRS 9 and a session on risk culture building.

The creation of an effective risk culture in any bank is an ongoing process of awareness, education and application. As the business environment and the industry change, we need to manage risk more effectively at all levels in the group. Bank Windhoek, for example, implemented a new automated enterprise risk management (ERM) system that considers internal risks arising from new products and systems as well as external risks caused by a dynamic operating environment.

Our key objective is to develop a culture in which leadership and employees work as teams, holding shared assumptions and beliefs about the importance of balancing economic success with social responsibility and environmental accountability.

The Capricorn Way, which was launched in 2017, is contributing to the culture change and a sense of unity in the group. Early indicators of change include employees taking more ownership and accountability for embedding and living The Capricorn Way through initiatives such as storytelling, team building activities and daily interactive team office sessions. Leaders are actively finding ways to embed and model behaviours, with our first annual Mirror Survey, an employee engagement survey, improving the understanding and awareness around desired behaviours. We have now aligned The Capricorn Way with performance development, talent investment and leadership development focus areas.
The Capricorn Talent Academy has been repurposed to focus on exponential thinking. Read more about the Capricorn Connector Programme and the employee survey on page 41.

Our employee induction programme was redesigned and significantly improved. During the year a new performance management system and rewards options were also launched to support strategy implementation. Performance conversations will now focus on development rather than ratings to enable a high-performance culture. Performance is the cornerstone of reward practices, and there is a clear differentiation between performers and non-performers. The reward consequences for individual employees are, as far as possible, linked to and influenced by the interests of shareholders, the performance of the group as a whole and the individual employee contribution. Refer to the remuneration report on page 79 for more information on the reward and recognition of employees.

We recognise that Capricorn Group is in a position to bring positive change throughout the region, and are aware of the environmental, social and governance challenges we face.

We therefore started a process to review the group's corporate social investment (CSI) model. In an effort to move from conventional CSI to a more holistic corporate social responsibility approach, the group compared its efforts and initiatives with international and local best practices. As part of this directional change, we want to ensure that our programmes function optimally and deliver tangible benefits to all stakeholders, while maintaining a positive impact on the business. The group's CSI activities are aligned with our brand purpose of being "Connectors of Positive Change" and we encourage our employees to be "Changemakers" in their respective communities. We will continue to seek opportunities for collaboration and partnerships, which is a key underlying philosophy of our CSI approach. We are committed to invest 1% of our profit after tax in CSI initiatives. For the first time, we now have a consolidated group-wide view on CSI expenditure and activities. More detail about this is available in the BSEC report on page 102. The CSI review is in its final stages of research and policy development.

We can contribute through social investment, but also in the way we invest our own and clients' money. CAM plays a key role in making investment decisions according to their sensible investment approach that requires a full understanding of the characteristics and risks of every investment.

**Bank Windhoek continued to be a resilient performer, with good growth from Bank Gaborone and Capricorn Asset Management. Cavmont Bank's performance was disappointing, however, the group has taken the necessary actions to turn this around.**

## Capricorn Group performance

With Namibia in a technical recession – the second instance since 2009 – Capricorn Group delivered resilient results with total comprehensive income increasing by 5.9% year on year.

Any reference to "normalised" means that, for the sake of meaningful comparison, the effect of the following significant once-off transactions and acquisitions have been adjusted from actual account balances, to arrive at normalised balances:

- Prior year financial results have been adjusted to include the results, assets and liabilities of the Botswana and Zambia subsidiaries as if they were acquired at the beginning of the prior reporting period.
- Capital profit on the partial sale of the Visa Inc. shareholding in line with the group strategy to realise non-core investments, has been excluded from the current financial year's results.
- Results have been adjusted to exclude any gain realised in the acquisition of a controlling interest in Entrepo Holdings (Pty) Ltd (Entrepo) in the current financial year, and to exclude the assets and liabilities of Entrepo at 30 June 2018.

After these adjustments, normalised total comprehensive income decreased by 5.5% when compared to the year ending 30 June 2017. The decrease is to some extent reflective of the challenging economic conditions but was largely caused by the disappointing result of the Zambian operations.

IFRS 9 proved to add a significant amount of modelling and analysis to the current modelling requirements of the group. In the year under review, the models were developed and validated by external auditors. Parallel runs were also underway. For more information on the adoption of IFRS 9, refer to note 1.3.2 on page 130 of the annual financial statements.

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

| | 2014 | 2015 | 2016 | 2017 | 2018 | Five-year CAGR* |
|---|---|---|---|---|---|---|
| **Statement of comprehensive income (N$'000)** | | | | | | |
| Total income | 1,736,630 | 2,079,559 | 2,411,946 | 2,647,682 | **3,044,065** | 16.2 % |
| Operating profit | 792,874 | 979,023 | 1,171,014 | 1,194,679 | **1,168,117** | 12.5 % |
| Profit for the year after tax | 624,915 | 753,002 | 905,048 | 917,621 | **934,435** | 13.6 % |
| Total comprehensive income for the year | 639,159 | 781,488 | 938,513 | 931,055 | **986,240** | 13.8 % |
| Earnings per share (cents) | 125 | 150 | 181 | 180 | **181** | 10.7 % |
| Dividends per share (cents) | 44 | 53 | 66 | 68 | **60** | 12.7 % |
| **Statement of financial position (N$'000)** | | | | | | |
| Total assets | 24,318,268 | 28,608,842 | 32,333,653 | 42,920,914 | **47,433,686** | 17.8 % |
| Total loans and advances to customers | 20,245,395 | 23,621,871 | 26,598,023 | 33,433,922 | **36,234,418** | 15.5 % |
| Total deposits | 18,782,411 | 21,993,998 | 23,724,128 | 31,571,561 | **33,948,091** | 14.9 % |
| Net asset value per share (cents) | 617 | 782 | 856 | 1,003 | **1,099** | 15.6 % |
| **Performance indicators (%)** | | | | | | |
| Return on average equity | 21.9 | 22.4 | 22.9 | 19.5 | **17.3** | |
| Return on average assets | 2.8 | 2.8 | 3.0 | 2.4 | **2.1** | |
| Impairment charges as a % of average gross loans and advances | 0.15 | 0.26 | 0.24 | 0.19 | **0.23** | |
| Non-interest income as % of operating income | 39.8 | 40.2 | 40.6 | 38.5 | **41.3** | |
| Cost-to-income ratio | 53.6 | 51.6 | 50.2 | 53.9 | **60.6** | |
| Closing share price (cents) at 30 June | 1,115 | 1,556 | 1,724 | 1,809 | **1,723** | |
| Price-to-book ratio at closing price per share | 1.8 | 2.1 | 2.0 | 1.8 | **1.6** | |
| Price-to-earnings ratio at closing price per share | 8.9 | 10.3 | 9.5 | 10.0 | **9.5** | |
| **Capital adequacy (%)** | | | | | | |
| Total risk-based capital ratio | 15.8 | 15.8 | 15.8 | 16.6 | **15.4** | |

** Compound annual growth rate*

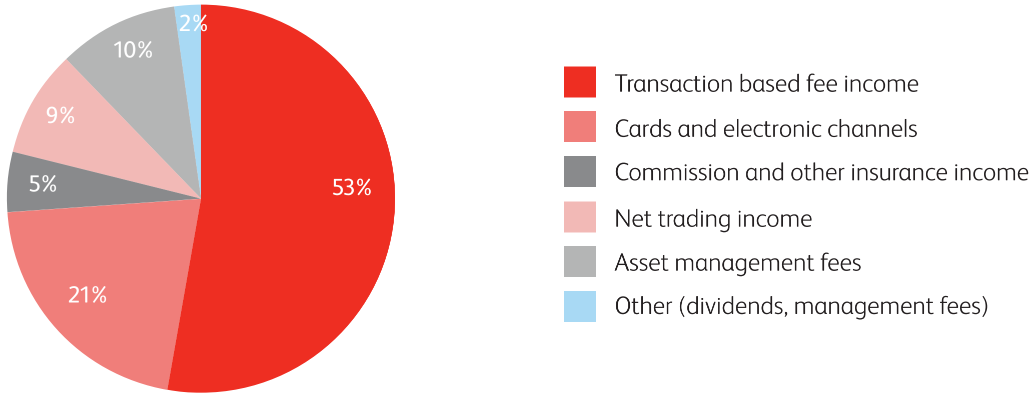
Net interest income increased by 10.3% to N$1,818.9 million (June 2017: N$1,649.5 million) largely due to the acquisition of CIHB and CCHZ that is included for a full year in the current year. On a normalised basis, the subdued growth in net interest of 1.1% is mainly due to increased pressures on interest margins in all three territories. Namibia experienced a 0.25% interest rate cut in August 2017, while Botswana had a 0.5% reduction in the repo rate to 5.0% in October 2017. Zambia saw the repo rate reduced by an aggregate of 2.75% during the year to 9.75%. The margin squeeze was exacerbated in Botswana due to market liquidity challenges resulting in increased cost of funding.

Impairment charges decreased by 39.4% to N$80.8 million (2017: N$58.0 million). Impairment charges for Bank Windhoek increased by 24.7% while Bank Gaborone's impairments decreased by 46.1% as a result of a few large specific impairments in the prior year relating to two failures in the mining sector.

Capricorn Group's loan book remains healthy considering the current economic environment and is testimony to the group's prudent management and the benefits of a decentralised decision-making model.

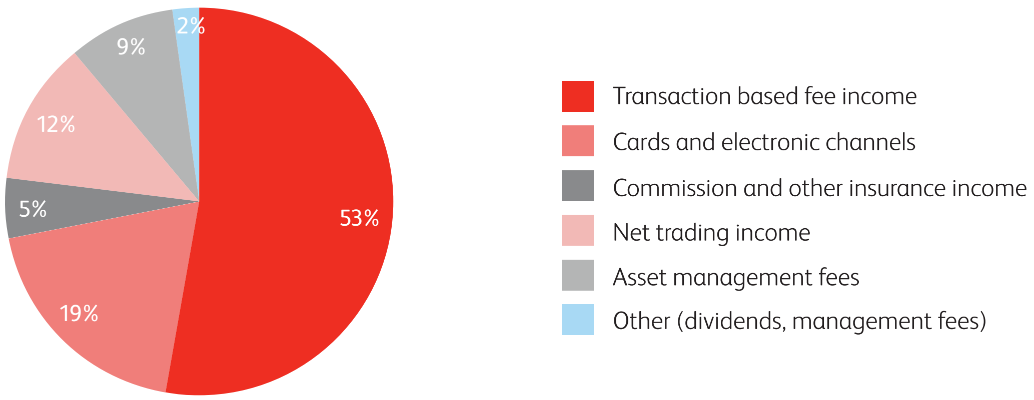
## Non-interest income per category

### 2018*




** Excluding Entrepo and profit on sale of Visa shares*

### 2017



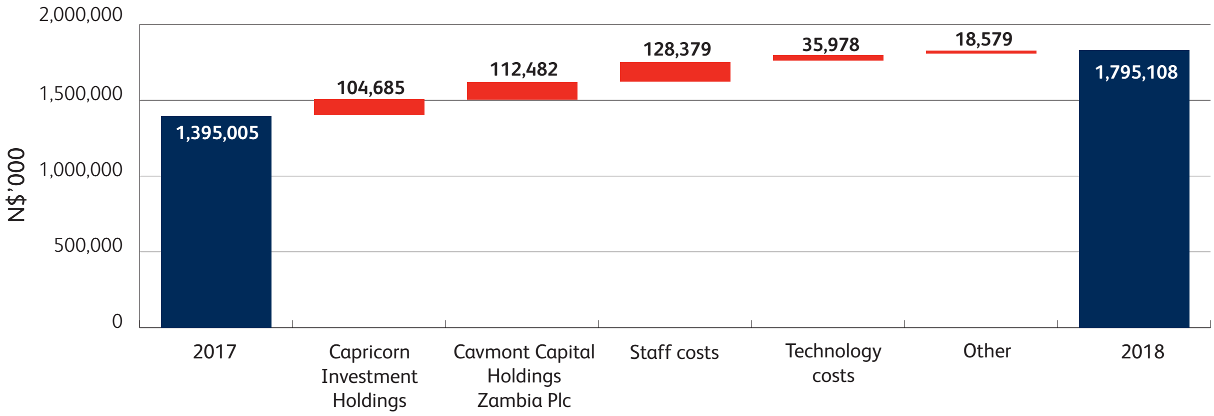

Non-interest income increased by 22.7% to N$1,225.2 million (2017: N$998.2 million) due to the sale of Visa shares and gains made on the acquisition of Entrepo.

Normalised non-interest income increased by 4.0%. Bank Windhoek was the largest contributor to normalised growth at 2.7% driven by a price increase in July 2017 and increased transaction volumes. Revenue from cards and electronic channels within Bank Windhoek increased by 18.6%, reflecting a strong uptake in the use of digital banking and resulting transaction volumes. Bank Gaborone and Cavmont Bank contributed N$61.0 million and N$70.6 million respectively.

Asset management income increased by 21.8% to N$106 million (2017: N$87 million).

A normalised growth of 14.7% in operating expenses is mainly due to increased employment and technology costs. Bank Windhoek's employment cost increase is a result of the expansion in customer-facing capacity, particularly in Capricorn Private Wealth, as well as new branches in Swakopmund and Walvis Bay, in addition to the upgrade of the Outapi branch to a fully fledged branch.

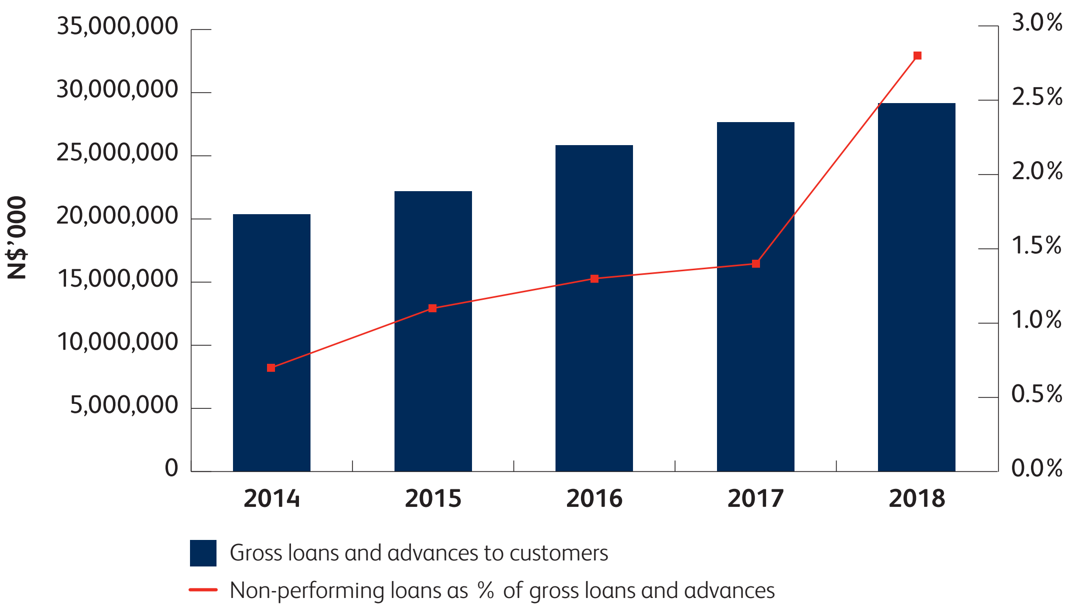
## Growth in operating expenses



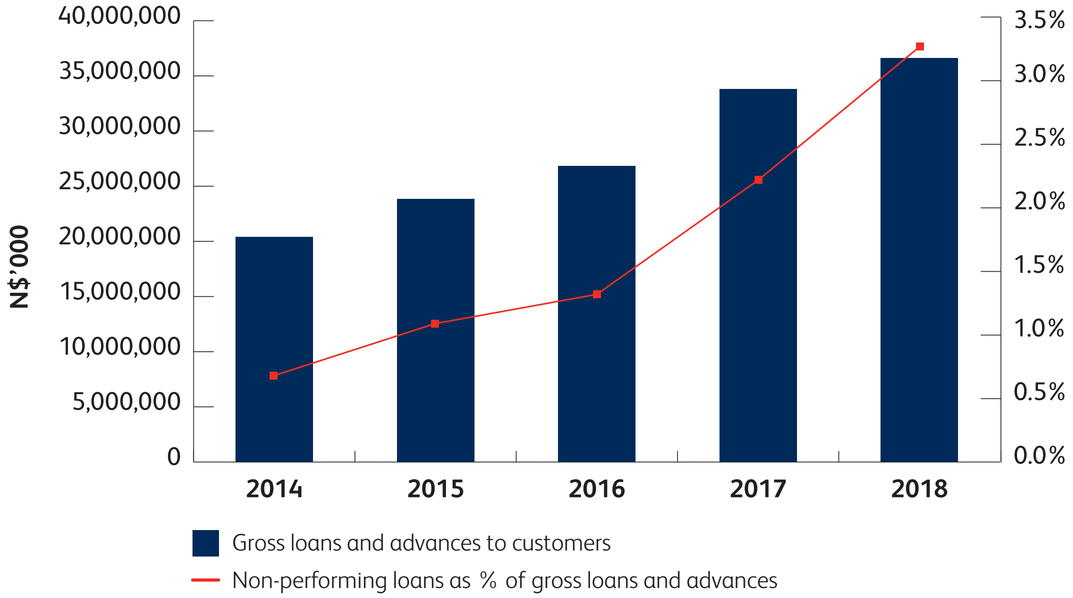

Loans and advances increased by 8.4% to N$36.2 billion (June 2017: N$33.4 billion), of which 2.6% relates to the acquisition of Entrepo. The modest normalised growth of 5.8% is due to subdued demand in both Namibia and Botswana, as well as the focused restructuring of the Bank Windhoek balance sheet to improve the group's loans-to-funding ratio. Bank Windhoek grew interest earning assets by 9.5% with liquid assets increasing by 55.3% compared to the prior year to N$4.8 billion.

Non-performing loans as a percentage of gross advances weakened from 2.2% to 3.3%, mainly as a result of a substantial increase in the value of non-performing loans at Bank Windhoek. This increase was mainly due to four large but well secured loans classified as non-performing during the year under review. Due to the substantial value and quality of the collateral held as security against these large exposures, potential losses are limited. For this reason, the bad and doubtful debt provisions did not increase in line with the increase in non-performing loans.

## Bank Windhoek: Gross loans and advances vs non-performing loans



## Group: Gross loans and advances vs impairments




Strategic initiatives to improve funding ratios of the group at all levels delivered positive results. Growth in Bank Windhoek funding exceeded growth in loans and advances, thereby improving the group's loans to funding ratio to 95.2% (2017: 96.7%). Total funding increased by 8.4% to N$40.3 billion (2017: N$37.2 billion). Bank Windhoek's funding increased by 8.5% largely due to good growth in term deposits and senior debt.

Although funding growth has been challenging in the current economic environment, the group has managed to lengthen its funding maturity profile and decrease its dependency on short-term funding.

The group remains well capitalised with a total risk-based capital adequacy ratio of 15.4% remaining well above the minimum regulatory capital requirement of 10%.

A final dividend of 30 cents per ordinary share was declared on 21 August 2018 for the year ended 30 June 2018 (2017: 38 cents). Considering the interim dividend of 30 cents per share, this represents a total dividend of 60 cents per ordinary share for the year (2017: 68 cents per share). The group's Dividend Policy remains unchanged.

## Bank Windhoek

The financial services industry in Namibia experienced a slowdown in financial activity this year, mainly driven by a decline in consumer spending and contraction in certain sectors, such as construction. However, some segments, such as tourism, showed encouraging growth.

Bank Windhoek performed well under these circumstances, outdoing its peers on most key indicators. With a market share of 32.4%, the bank is highly exposed to local industry and economic conditions, but nevertheless delivered lower impairments, improved liquidity and better cost control.

The industry-wide increase in non-performing loans is a symptom of wider economic ailments and is best mitigated through active credit management – a key capability for Bank Windhoek. As a result, the bank's loans are better secured, and lower provisions had to be raised than was the case for competitors. This capability is the result of our decentralised mandate, with branch managers applying their local knowledge and relationships to actively manage loan indicators.

Bank Windhoek continued its efforts to raise deposits rather than rely on assets as a driver of growth and liquidity. The following initiatives supported growth efforts:

- Following the successful launch of Capricorn Private Wealth, Bank Windhoek launched Visa Gold and Platinum credit cards. The chip-based cards offer risk-free online transacting and single-view management of accounts on the bank's electronic banking channels, and can be used globally. Several unique, customised debit cards were also launched.
- Bank Windhoek increased the language options on its ATM network to eight – making it the first and only Namibian bank to enable transactions in indigenous languages. The introduction of additional languages followed the upgrade of Bank Windhoek's ATMs in November 2017 to align with the new corporate identity, which included modern animated screens to enhance the customer experience.
- Bank Windhoek launched a Women in Business offering, which is a targeted package that includes combined personal and business current accounts as well as multiple named savings purse options.
- The Bank Windhoek EasyWallet, launched in 2017, exceeded all expectations. The e-wallet solution enables customers to send money to any MTC number via a mobile phone. Recipients do not need a Bank Windhoek account and can immediately withdraw cash at any Bank Windhoek ATM or access prepaid services and buy airtime or electricity. The points of presence for cashing out EasyWallets increased to 349 locations countrywide by the end of the financial year.

Bank Windhoek continues to be the largest contributor to group profit after tax. Bank Windhoek's net profit after tax amounted to N$796.8 million (2017: N$775.4 million) – an increase of 2.7%. Transactional income showed steady growth, and we were able to manage the arrears book well.

Bancassurance remains one of the main opportunities for Bank Windhoek as it enables us to diversify revenue and increase advisory service income. New offerings include legal access cover for all transaction accounts and tailored debt or funeral cover for the new Women in Business product. We are optimising our proposition through customer segmentation to ensure we offer the best advice and appropriate cover.

Bank Windhoek continued its drive to contain operational expenses. Significant savings were realised on ICT licence and support fees and the renegotiation of rental contracts in line with current market conditions, which resulted in a saving of more than N$2 million in rental expenses per annum. Bank Windhoek will continue to benefit from the reduced rate per square metre for the next three to five years.

## Bank Gaborone

Bank Gaborone again delivered very solid results, with 6.7% growth in revenue (2017: 28.4%) and a 17.3% improvement in operating profit (2017: 83.2%).

With a 7.0% market share in loans and advances and 6.8% in deposits in Botswana, Bank Gaborone's focus remains on building and nurturing sustainable relationships. A client-centric approach, built on the capability to resolve customer complaints and issues quickly and amicably, means that we remain agile and responsive.

Since Bank Gaborone became part of the Capricorn Group, it has been able to venture into bigger opportunities and tap into group expertise and resources. This included, for example, the launch of a bancassurance offering to access a wider market and enhance profitability.

However, low growth in the bank's customer base reduces opportunities for cross-selling, and limits the available funding to invest in technology.

Highlights for Bank Gaborone include the development of a new strategy in support of the AsOne2020 strategy. A new branch opened in Kasane, and the move to a new head office is almost complete. To drive awareness and align with the monolithic brand, Bank Gaborone rolled out its refreshed branding in September 2017.

Challenges include the continued effect of the closure of the parastatal mining operation, Bamangwato Concessions Ltd, which resulted in job losses.

The repo rate reduction to a record low of 5%, implemented in October 2017, had a negative impact on growth. As interest income is the bank's main revenue stream, it is directly affected by rate cuts, while funding costs are not repriced, thereby eroding margins. The bank is, therefore, focusing on increasing its non-interest income by broadening streams from which transaction-based income is earned.

Bank Gaborone continues to run a range of projects aimed at measuring and improving customer satisfaction. This includes the streamlining of channels, products and services. Funding activities focus on mitigating concentration risk and reducing and stabilising the cost of funding, while also diversifying sources of funding. We are also improving our ability to leverage data to tailor proactive sales to individual client needs.

During the year new Church and Lebandla accounts were developed. The Church account is targeted at churches and designed to resolve their specific bank-related challenges. The Lebandla account is designed for groups. Bulk payments and collections through the e-pula internet banking channel were piloted as a way to offer a hassle-free option for paying multiple beneficiaries. The Rotlhe funeral policy was also revamped to make it more appealing by increasing the benefits while maintaining affordable premiums.

The bank's main opportunities are upselling to existing clients, attracting new clients and increasing penetration in the agriculture and tourism sectors.

## Cavmont Bank

Cavmont Bank recorded 3.9% decline in revenue (2017: 6.1% growth) despite a growth in earning assets over the period. This was mainly attributed to a reduction in the base policy rate by 275 basis points during the financial year.

Loans and advances grew during the year. However, the increase in non-performing loans negatively affected the level of interest income. Cavmont experienced a reduction in non-interest income due to a significant decrease in foreign exchange trading volumes and tightened foreign exchange trading margins. Transaction-based fee income remained stable compared to the prior year. The group has taken active measures in identifying new revenue opportunities and is confident that it will contribute well in the future.

Foreign currency trading income was also negatively affected by currency fluctuations and declining volumes of trade.

Profitability was largely impacted by slow growth in earning assets and significant impairment provisions due to underperforming and non-performing loans.

A highlight for Cavmont Bank was a range of ACQ5 2018 awards, including listed company of the year in Zambia, personal bank of the year, bank of the year and innovative bank of the year. Cavmont Bank retained its status as the #1 bank on Twitter in Zambia, the #2 local bank on Facebook and #4 overall.

## Capricorn Asset Management (CAM) and Capricorn Unit Trust Management (CUTM)

CUTM continues to be the largest unit trust manager in Namibia with a dominant market share of 30.2%. We believe our governance maturity, aligned to international best practice, our consistent risk adjusted and tax effective returns, coupled with dedicated service capability, contribute to reaching and maintaining the number one position in Namibia.

CAM's assets under management increased by 18.2% (2017: 13.2%) on the back of strong inflows from the corporate and wealth segments. A significant percentage of the year's inflows were allocated to interest bearing funds of which our money market funds received the lion's share. In addition to the good inflow, we also experienced a high degree of asset class rotation out of the more volatile equity and property type funds into interest bearing funds. This was mainly due to the prolonged lethargic performance of the more risky asset classes as well as a significant strengthening of the rand against all expectations, which resulted in negative returns in foreign asset classes. The net result was lower income growth due to the migration of a large part of our assets under management towards the lower fee interest bearing funds. However revenue increased by 15.1% (2017: 2.5%) with net profit after tax growth of 15.7% (2017: 2.0% decrease).

With total assets under management in excess of N$22 billion, we look forward to strong growth in the coming financial year flowing from Capricorn Private Wealth and the launch of online capabilities.

## Namib Bou

Due to the general economic downturn, Namib Bou experienced challenges in both property development and valuation activities. Strong progress was made in employee development, resulting in a better educated, motivated and positive team.

In April 2018 Namib Bou signed a new service level agreement with Bank Windhoek, in terms of which all property valuations for the bank will be performed and controlled by Namib Bou. This will have a significant impact on Namib Bou's financial performance. It also means that all valuation information can now be captured in a central database to assist with the execution of the valuation function, thereby limiting the risk associated with property as collateral security for loans.

The sales for the affordable house development at Ondangwa phase three has slowed because of the general economic downturn. This necessitated an investigation into a more affordable conventional construction product and consideration of alternative construction methods.

Future opportunities relate to innovative responses to the potential impact of climate change, especially regarding the availability of water. Continued urbanisation and education will drive growth in the long term.

## Associates

Income from associates increased by 6.6% (2017: 19.6% decrease) offset by a decrease in profit reported by Sanlam Namibia, following a number of large insurance claims settled during the year under review. The entry-level market performed exceptionally well, resulting in new business strain being much higher than expected, which decreased profits in the short term. However, this will result in higher long-term profits.

Santam's performance was bolstered by improved claims efficiency, growth in bancassurance and the launch of a new broker/client portal. Premium growth is under pressure due to a softening cycle, whereas profitability suffered from an increase in claims and unpaid debit orders.

Both associates were impacted by an increase in NAMFISA levies.

"Following a prolonged period of substantial growth, the group's results for the last two financial years have been sobering. A stagnant economy and challenging market conditions have rung in a new era for the regional financial services industry: one of stifled growth and reduced returns. We remain positive that the economy will show growth in the medium to long term and that our group will successfully navigate the challenging market landscape until then."

– Johan Swanepoel, Group chairman

**We remain committed to being a connector of positive change and creating opportunities for all our stakeholders to enjoy the benefits of the shared value we are able to generate.**

With a continued subdued economic and business outlook in the region, Capricorn Group remains in a healthy position to deliver solid results and to continue creating value.

Our challenge as individuals and as a group is to keep abreast with and, where possible, predict the changes that will affect us and our stakeholders and to act decisively to take advantage of the disruptive change. With change occurring rapidly, growth can be exponential. In this context, our purpose as connectors of positive change is particularly relevant.

We anticipate a heightened risk of a resurgence of fiscal challenges and will act with prudence and responsibility towards our customers and other stakeholders. We will continue to invest in opportunities that will enable us to achieve operational excellence and maintain a high-performance culture. Through our strategic choices, the group expects to improve efficiencies, realise cost savings, expand and diversify revenue streams, and manage risks responsively.

At the end of June, the five-year fixed-term contract with Charles Carey, managing director of Cavmont Bank, came to an end. Due to personal family commitments, the board and Charles have mutually agreed not to extend the contract beyond this date. Charles was a passionate ambassador of the Cavmont brand and a positive leader that inspired several milestones for the business in Zambia. We would like to thank him for his valued contribution and continued support. Peet van der Walt was appointed as interim managing director from 1 July 2018 until the recruitment process is concluded.

Our efforts as a group are dependent on employees who are ready to embrace change, on stakeholders willing to explore new opportunities, and on the effective and ethical leadership of our board and executive teams. We thank all of them for their contribution, participation and commitment in the past year.

We also thank our regulators, regional governments and societies for providing a receptive environment in which we as a group can continue to create value for our stakeholders. The consistent growth and positive performance of the group can also be attributed to our loyal and expanding customer base. We have the scale, capacity, capability and infrastructure to create further growth, connections and opportunities.

**Thinus Prinsloo**
*Group managing director*

**Johan Swanepoel**
*Group chairman*

"We are a local bank that strives to compete on global standards, therefore, we must innovate continuously in a manner that creates value for our clients sustainably."

– Baronice Hans, managing director of Bank Windhoek

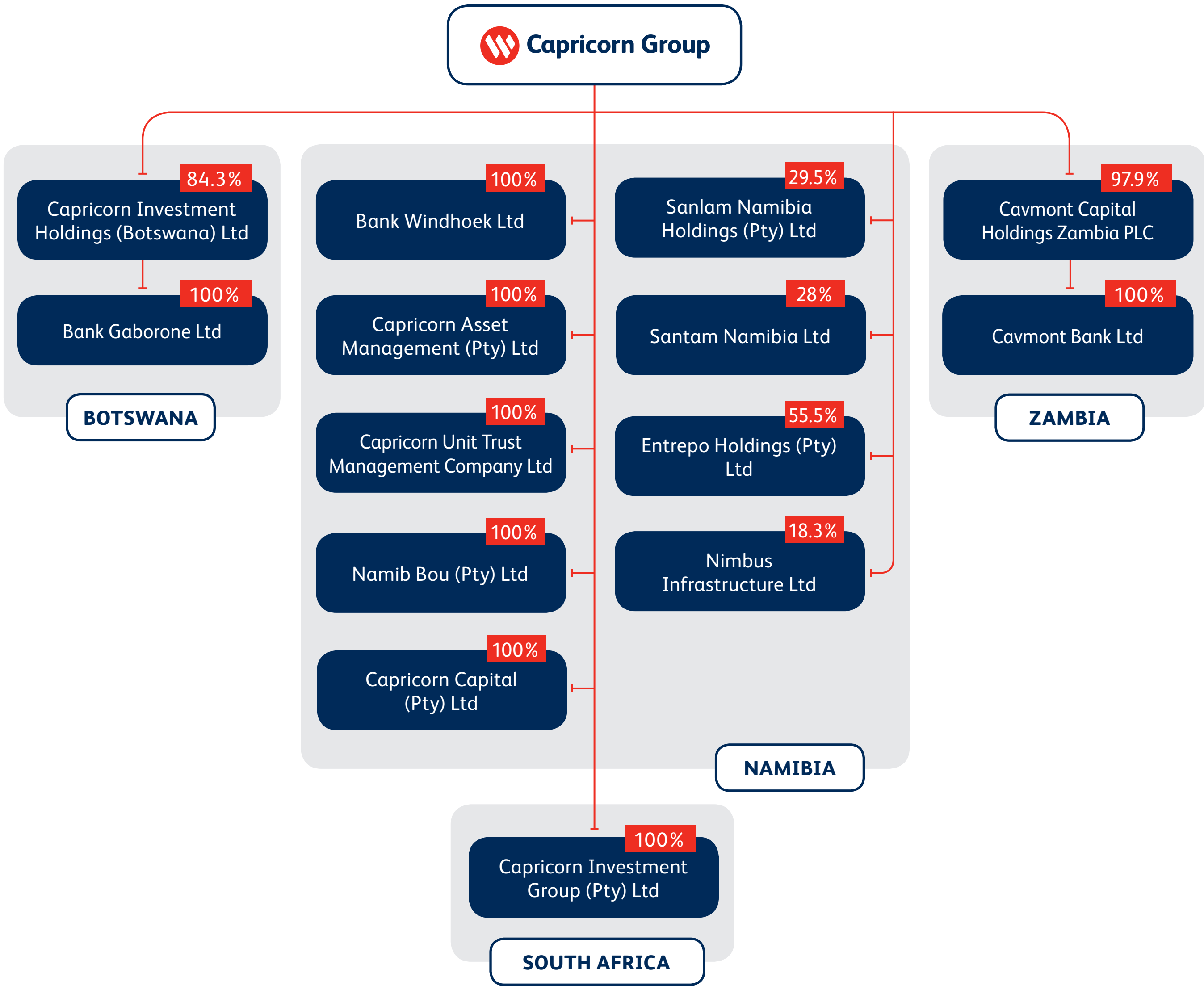
# 03 CAPRICORN GROUP PROFILE AND STRUCTURE

## Group profile and structure

Capricorn Group is a diversified financial services group based in Windhoek, Namibia, with subsidiaries in Botswana, Zambia and South Africa. Acquisitions during the year expanded the group's structure in Namibia, and the group's shareholding in Capricorn Investment Holdings (Botswana) increased by 15.6%. Read more about the rationale for these acquisitions and transactions in the leadership report on page 10.

Capricorn Group provides strategic guidance, oversight and support to its subsidiaries.

The group's operations are primarily focused on banking, insurance, wealth and asset management, and microfinance.



# Bank Windhoek Ltd

Bank Windhoek is the flagship brand of Capricorn Group. It is a full-service commercial bank offering a wide range of banking products and services.

Bank Windhoek offers foreign exchange services at most of its branches.

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

Bank Windhoek offers personal, corporate, electronic and international banking products and services. These include personal savings for different customer segments and needs. Bank Windhoek also offers competitive interest rates on its Call Deposit, Notice Deposit, Fixed Deposit and prime-linked Fixed Deposit products. It has a wide range of secured and unsecured loan products to cater for the needs of individual customers, small and medium-sized enterprises (SMEs) and corporates, including home and building loans, vehicle and asset finance and microloans through BW Finance.

In 2017, Capricorn Private Wealth was launched as a joint venture offering between Bank Windhoek and Capricorn Asset Management, creating a boutique wealth and investment management experience aimed at high net worth individuals. Banking and financial solutions are created to protect assets and grow wealth through private banking services and wealth management options.

Following the launch of Capricorn Private Wealth, Bank Windhoek also introduced an expanded credit card offering to Gold and Platinum clients. A Women in Business offering was launched to serve this particular market segment and promote entrepreneurship. In its quest to offer effortless banking services, the bank recently introduced digital payment solutions through its EasyWallet offering, enabling clients to send money to beneficiaries.

Bank Windhoek offers a wide range of treasury services, which include, inter alia, money market and foreign exchange.

International banking services comprise payment products, trade services, trade risk and foreign currency accounts. A wide spectrum of financial solutions for business clients includes overdraft, business financing and start-up alternatives.

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

Investment options for unit trusts and funds are available through CAM.

**WINDHOEK, NAMIBIA**
HEAD OFFICE

**BARONICE HANS**
Managing director

**1982**
Date of establishment

**1,449**
Number of permanent employees

2017: 1,494

**86%**

Contribution to group profit after tax

2017: 83%

Bank Gaborone

# Bank Gaborone Ltd (Botswana)

Bank Gaborone is wholly owned by CIHB, an 84.3% subsidiary of Capricorn Group. Since commencing commercial operations in 2006, the bank has expanded its network and offers an increasingly broader range of products and services in response to market needs.

Bank Gaborone offers personal and corporate products and services tailored to different market segments:

- deposit accounts for individuals and businesses, which include current, savings, investment and call accounts, foreign exchange products and services
- loan accounts, which include vehicle and asset finance, home and building loans, unsecured loans through BG Finance, commercial loans and overdraft facilities
- bancassurance, which includes short- and long-term insurance

The bank offers electronic channels, which include e-pula internet banking, Tobetsa Mobile Banking and an SMS Alertz service. Through these channels customers can, at their convenience, enjoy hassle-free banking at their offices and homes.

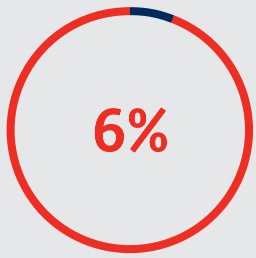
**GABORONE, BOTSWANA**
Head office

**SYBRAND COETZEE**
Managing director

**2006**
Date of establishment

**289**
Number of permanent employees

2017: 258




Contribution to group profit after tax

2017: 4%

Cavmont Bank

## Cavmont Bank Ltd (Zambia)

Cavmont Bank is a 100% subsidiary of CCHZ and was established in 2004. CCHZ listed on the LuSE in September 2006.

Cavmont Bank provides corporate, investment, retail and community banking services. Its personal, business and treasury banking products include:

- personal current, extra capital, saver's bonus and saving accounts
- business current, extra capital, savings and church accounts

Cavmont Bank offers its customers various investment products, ranging from term and fixed deposits to asset-backed securities. Payment solutions include real-time gross settlement, direct debit and credit clearing, as well as foreign exchange services. It offers e-Cavmont electronic banking.

**LUSAKA, ZAMBIA**
Head office

**CHARLES CAREY**
Managing director
(until 30 June 2018)

**2004**
Date of establishment

**324**
Number of permanent employees

2017: 261

**-5%**

Contribution to group profit after tax

2017: 0.3%

Capricorn Asset Management

# Capricorn Asset Management (Pty) Ltd (CAM) and Capricorn Unit Trust Management Company (CUTM)

The group's asset management activities are conducted under two separate legal entities: Capricorn Asset Management (CAM) and Capricorn Unit Trust Management Company (CUTM). All administration and asset management activities of the Capricorn Unit Trust funds are performed by CAM.

CAM is a leading Namibian asset management firm aiming to meeting the investment needs of individual investors, financial advisors, businesses and institutional investors, including pension funds and insurance companies. The company manages investments covering all major asset classes in markets around the world.

Through the Capricorn Private Wealth offering, CAM offers management services including investment advisory, financial planning, estate planning and fiduciary services.

Through the Caliber Capital Trust, an approved unlisted special purpose vehicle in terms of regulation 29 of the Pension Funds Act, CAM offers investment opportunities in unlisted businesses. This fund supports Namibia's Harambee Prosperity Plan and Vision 2030 by focusing on job creation, import replacement and industry development in Namibia.

The Capricorn Unit Trust Fund range was established in 2000 with the launch of the Capricorn Selekt Fund. CUTM has been the market leader since 2004 in terms of assets under management within the unit trust sphere. CUTM's latest market share is 30.2%. It has 15 unit trusts covering all major asset classes, including cash, bonds, property, equity and international equities.

Combined, the Capricorn Investment Fund, Capricorn Corporate Fund and Capricorn Selekt Fund have assets in excess of N$12 billion under management. The Capricorn Investment Fund is the largest unit trust fund in Namibia with N$7.4 billion under management.

**WINDHOEK, NAMIBIA**
Head office

**TERTIUS LIEBENBERG**
Managing director

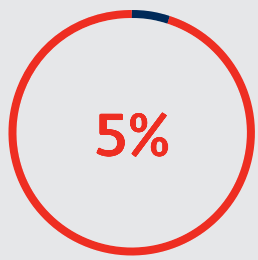
**2006**
Date of establishment

**43**
Number of permanent employees

2017: 39

**N$22.2BN**
Assets under management

2017: N$18.7bn




Contribution to group profit after tax

2017: 4%

# Capricorn Capital

Capricorn Capital, with offices in Windhoek and Johannesburg, is a wholly owned subsidiary of Capricorn Group. Capricorn Capital provides corporate finance, capital raising and specialised finance advice to public and private companies, private equity firms, family offices, governmental and other bodies located in or wishing to invest in southern Africa. Capricorn Capital aims to become an investment banking champion in southern Africa and to play a key role in driving economic growth in the region.

Capricorn Capital has a team of creative thinkers, veteran dealmakers and top deal executioners with excellent product, regional and broad industry knowledge who provide clients with bespoke, novel, integrated and intelligent financial solutions. The Capricorn Capital team's unique multinational corporate, investor, government, regulator and advisory relationships are augmented with Capricorn Group's strong relationships in Namibia, Botswana, Zambia and South Africa. Capricorn Capital will, from time to time, partner with leading industry specialists to tap into the alternative investor market or to ensure the best solutions and desired outcomes are delivered.

| | |
|---|---|
| Corporate finance | • Mergers and acquisitions<br>• Divestitures<br>• Recapitalisations and restructuring<br>• Sovereign advisory<br>• Valuations and due diligence<br>• Strategic advice |
| Capital markets | • Equity capital market advisory<br>• Debt capital market advisory<br>• Debt and equity private placements<br>• Placement with alternative investors through Neu Capital Africa<br>• Strategic capital and minority investments |
| Specialised finance | • Project finance<br>• Leveraged finance<br>• Acquisition finance<br>• Structured products<br>• Structured credit and derivatives<br>• Tax structuring |

**WINDHOEK, NAMIBIA**
Head office

**MARK DURR**
Managing director

**3**
Number of employees
2017: 0

## Entrepo Holdings (Pty) Ltd

Entrepo is a focused financial services group providing microlending and credit protection products to government employees in Namibia. Its business activities are conducted through two separate legal entities, both regulated by the Namibia Financial Institutions Supervisory Authority: Entrepo Finance (Pty) Ltd is a registered microlender and Entrepo Life Ltd is a registered long-term insurer.

Entrepo's tailor-made products are simple and clear, competitively priced, and provide comprehensive and suitable benefits to its chosen target market.

Entrepo Finance is a responsible lender and accepts loan applications that are considered against clear and unassailable rules regarding affordability and minimum take home pay. As security against the loan a client may choose to take out Entrepo Life's credit protection product, which offers excellent death, disability, funeral and job loss protection benefits.

**WINDHOEK, NAMIBIA**
Head office

**LEEBA FOUCHE**
Group chief executive officer

**2014**
Date of establishment

**TWO BRANCHES AND ONE AGENCY**

**30**
Number of permanent employees
2017: 41

**N$848M**
Size of loan book

## Sanlam Namibia Holdings (Pty) Ltd

Sanlam Namibia is a well-diversified financial services group with key operations in life assurance in both the affluent and entry-level markets, as well as in group life assurance, credit life assurance, unit trust management and unit-linked platform business. Sanlam Namibia's key strategic shareholders are Sanlam Ltd (54.1%), a South African financial services group, as technical partner, Capricorn Group (29.5%) as banking partner and NFSH (16.4%) as empowerment partner.

**WINDHOEK, NAMIBIA**
Head office

**TERTIUS STEARS**
Managing director

## Santam Namibia Ltd

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

Santam Namibia was established in Windhoek in 1956 and is a 60% owned subsidiary of Santam Ltd – the leading general insurer in South Africa. The remaining shares are held by Capricorn Group (28.0%) and NSFH (12.0%).

**WINDHOEK, NAMIBIA**
Head office

**FRANCO FERIS**
Managing director

## Namib Bou

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

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

## Clearing houses

Bank Windhoek is a member of Namclear, a co-operative venture between the four Namibia-based commercial banks. Namclear is a service provider to the banking industry with the local clearing of interbank transactions as its core service.

Bank Gaborone is a member of the Bankers Association of Botswana (BAB), which consists of the 12 clearing banks in the country, including the Reserve Bank (Bank of Botswana). The BAB in turn owns and operates the Botswana Automated Clearing House (BACH), which is responsible for the clearance of all domestic cheque and electronic funds transfer (EFT) payments. Bank Gaborone participates in the BISS (Botswana Interbank Settlement System), which is owned and operated by the Bank of Botswana. The BISS operates separately from the BACH and allows for Straight Through Processing (STP) of EFTs. BISS is used primarily by the treasury departments of the participating banks and is the system used for industry settlement.

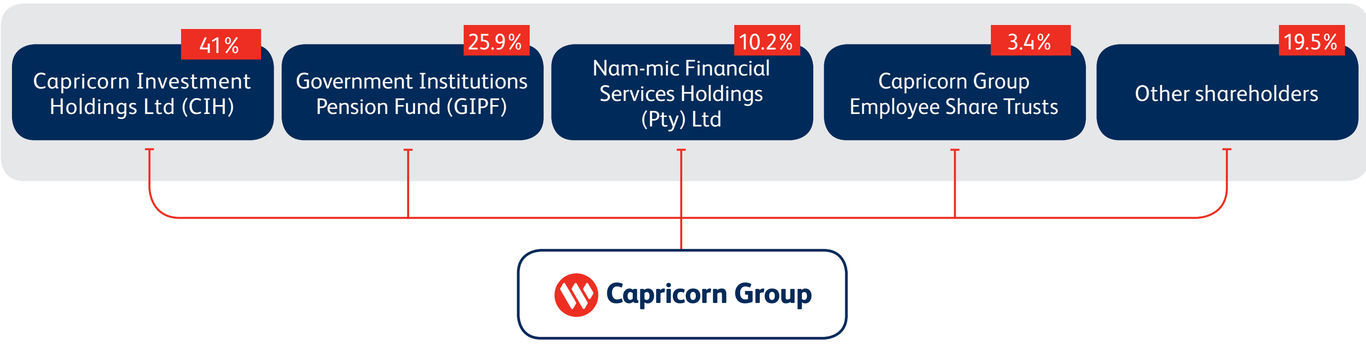
Cavmont Bank is a member of the Zambia Electronic Clearing House Ltd (ZECHL), which is a non-profit joint venture between the Bank of Zambia (BoZ) and a consortium of commercial banks.

# Shareholding

Capricorn Group benefits from a diversified and empowered shareholder base. The GIPF shareholding transaction, which was completed in 2017, resulted in the group's total direct and indirect black shareholding exceeding 40%.

Changes in shareholding during the year entailed minor movements, the most significant being the issue of 2.3 million shares to CIH in part settlement of the acquisition of the remaining 15.6% shareholding in CIH (Botswana) Ltd acquired from CIH.

Below is the shareholding in Capricorn Group as at 30 June 2018.




## Shareholding analysis

| | 2018 | 2017 |
|---|---|---|
| Number of shares in issue | **519,184,399** | 516,878,336 |
| Number of shares traded | **8,055,822** | 14,963,488 |
| Value of shares traded | **145,458,846** | 258,799,214 |
| Closing price (N$ per share) | **17.23** | 18.09 |
| High (N$ per share) | **18.18** | 18.09 |
| Low (N$ per share) | **16.90** | 16.85 |
| Price-to-earnings ratio (HEPS) | **10.9** | 10.0 |
| Price-to-book ratio | **1.6** | 1.8 |

## Public and non-public shareholding

| | Number of shareholders | Percentage of total shareholders | Number of shares in issue | Percentage of issued share capital |
|---|---|---|---|---|
| Public | 4,516 | 99.4 | 98,845,448 | 19.0 |
| Non-public | 29 | 0.6 | 420,338,951 | 81.0 |
| Total | 4,545 | 100 | 519,184,399 | 100 |

## Distribution of shareholders per category

| | Number of shareholders | Percentage of total shareholders | Number of shares in issue | Percentage of issued share capital |
|---|---|---|---|---|
| Individuals | 4,237 | 93.2 | 50,317,664 | 9.7 |
| Corporate bodies | 88 | 1.9 | 270,090,468 | 52.0 |
| Nominees and trusts | 202 | 4.5 | 51,035,068 | 9.8 |
| Pension funds and medical aid societies | 18 | 0.4 | 147,741,199 | 28.5 |

## Shareholder spread by beneficial owner

| | Number of shareholders | Percentage of total shareholders | Number of shares in issue | Percentage of issued share capital |
|---|---|---|---|---|
| 1–1,000 | 1,836 | 40.4 | 1,175,075 | 0.2 |
| 1,001–50,000 | 2,510 | 55.2 | 21,116,821 | 4.1 |
| 50,001–100,000 | 64 | 1.4 | 4,653,974 | 0.9 |
| 100,001–10,000,000 | 131 | 2.9 | 77,917,349 | 15.0 |
| 10,000,001 and above | 4 | 0.1 | 414,321,180 | 79.8 |
| Total | 4,545 | 100 | 519,184,399 | 100 |

# Capricorn Group employee profile

Capricorn Group employees are employed by the entities as set out in the diagram on page 24. The most substantial portion of the group's employees are permanently employed. The following table summarises the group's employee profile as at 30 June 2018:

| | Permanent employees | % male | % female | % permanent | % contract | Total 2018 | Total 2017 |
|---|---|---|---|---|---|---|---|
| Namibia | 1,635 | 37 % | 63 % | 97 % | 3 % | **1,678** | 1,620 |
| Botswana | 274 | 34.7 % | 65.3 % | 94.8 % | 5.17 % | **289** | 258 |
| Capricorn SA | | | | | 100 % | **29** | 29 |
| Zambia | 324 | 51.9 % | 48.1 % | 91.2 % | 8.8 % | **324** | 261 |
| Total and average % | 2,233 | 41.2 % | 58.8 % | 94.3 % | 29.2 % | **2,320** | 2,168 |

“Embedding a culture takes a few years to get right. I would like to believe that the resilience shown over the years by Capricorn Citizens will make this journey enjoyable and rewarding for all. A collaborative team effort, inspired by The Capricorn Way, can result in our group being widely recognised in the next few years as a leading and admired financial services firm in the region, by our employees as well as our key stakeholders.”

– Thinus Prinsloo, Group managing director

## Geographic footprint

**324**
Permanent employees

**17,609,178**
Population

**Zambian kwacha** (ZMW)
Currency

**ZMW1 = N$1.38**
Currency conversion
at 30 June 2018

**274**
Permanent employees

**2,396,129**
Population

**Botswana pula** (BWP)
Currency

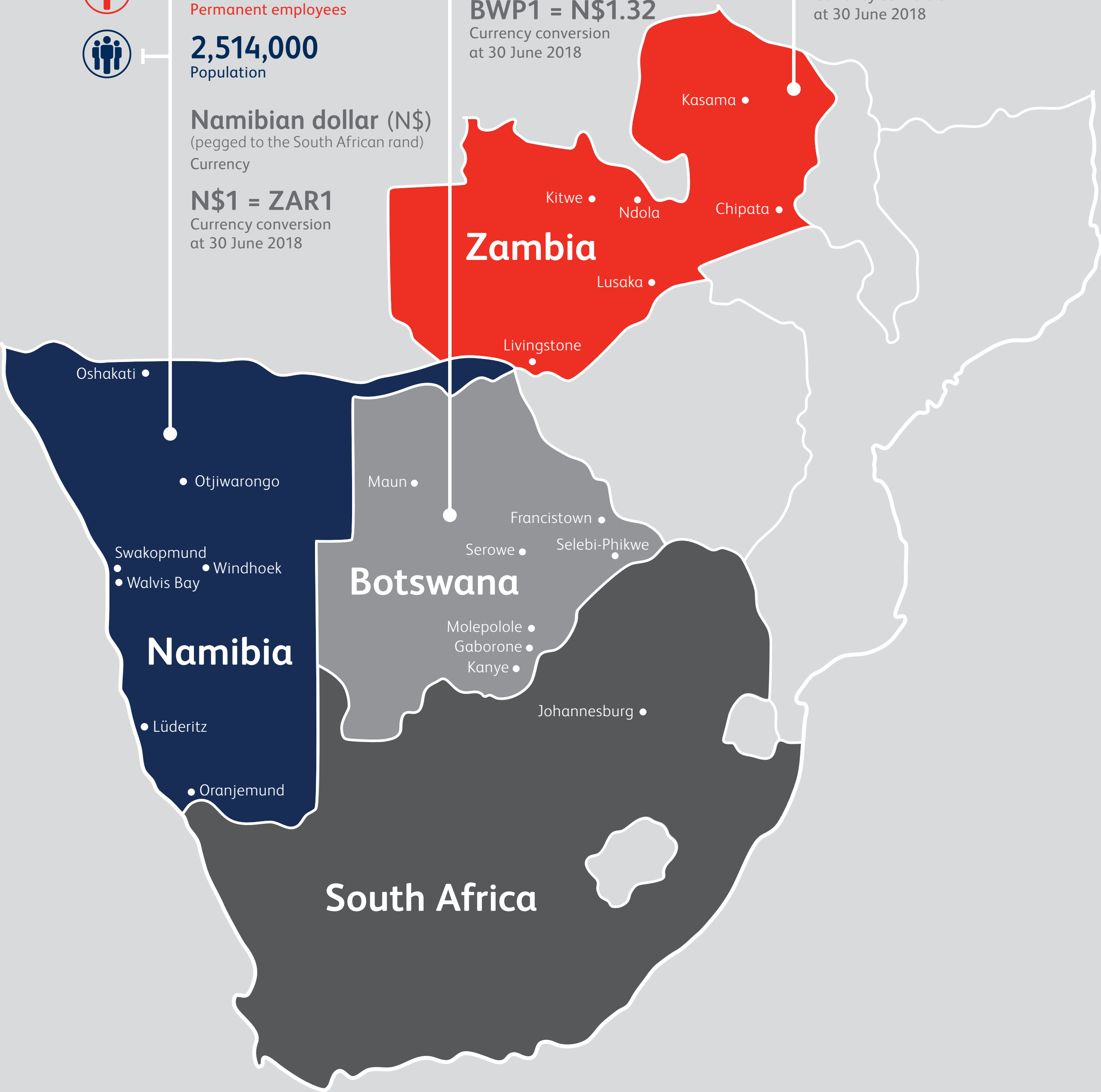
**BWP1 = N$1.32**
Currency conversion
at 30 June 2018

**1,635**
Permanent employees

**2,514,000**
Population

**Namibian dollar** (N$)
(pegged to the South African rand)
Currency

**N$1 = ZAR1**
Currency conversion
at 30 June 2018



## Total ATMs and Cash Express machines

NAMIBIA 329

BOTSWANA 18

ZAMBIA 42

## Total branches

56 Namibia

10 Botswana

20 Zambia

## Contribution to net profit after tax

99% NAMIBIA

6% BOTSWANA

-5% ZAMBIA

| | | |
|---|---|---|
| **1.2%** | **4.7%** | **4.1%** |
| Expected GDP growth for 2018 | Expected GDP growth for 2018 | Expected GDP growth for 2018 |
| **NAMIBIA** | **BOTSWANA** | **ZAMBIA** |

# 04 OUR STRATEGIC LANDSCAPE AND MATERIAL MATTERS

## Trends and opportunities in financial services

A global view of banking reveals a significant increase in the cost of compliance over the past ten years, balanced with much improved capital positions and higher levels of resilience. This is according to EY's Global Banking Outlook 2018, which states that 85% of banks are prioritising the implementation of a digital transformation programme and investing in technology to drive efficiency, manage evolving risks and benefit from growth opportunities.

Banks continue to reshape their footprints and offerings as they face increased competition from a range of new market entrants, including digital banks, fintechs and institutions offering high-touch and high-tech branch services, e-commerce and telecommunications firms and, in some markets, platform banking providers.

Investment in cloud and mobile technology, data analytics and artificial intelligence dominates capital decisions. Many banks are building digital customer profiles and customer journeys to address more sophisticated personalisation strategies for front-end operations, where chatbots, voice assistants, robotics and automation capabilities are applied to enhance the customer experience.

The expectations of the digital consumer of financial services continue to evolve. Crypto- and digital currencies, biometric payment systems, video banking and an increased focus on branch "experiences" are some of the developments shaping these expectations.

The resulting customer retention risks have to be managed within the context of increasing regulation, non-optimal legacy systems, cyber risk and changing talent profile requirements.

## Global and African context

With the global economy recording some of its best performances in more than five years, Africa is poised for a modest, if fragmented, growth recovery. This is according to the World Economic Forum, which puts growth prospects at 3.5% for 2018, up from 2.9% in 2017. The recovery is based on improved global conditions, increased oil output and the easing of drought conditions in the east and south.

Challenges remain: sharp increases in public debt, continued political fragility and climate change impacts.

In March 2018, at an extraordinary summit of the African Union, the Africa Continental Free Trade Area deal was signed by 40 African Heads of States and government representatives. The decision to create a free trade zone of more than 50 countries is a milestone towards economic integration on the continent.

The most significant economic opportunity on the continent is increased trade within Africa. This will require further regional integration and trade liberalisation to remove existing barriers.

In the SADC region, optimism followed the recent appointment of new presidents in South Africa, Angola and Zimbabwe. South African president Cyril Ramaphosa automatically became the SADC Chairperson after being elected president in February 2018.

## Operating context: Namibia

Namibia's fifth National Development Plan was launched in 2017 for the period up to 2022. The Harambee Prosperity Plan, in turn, defines the country's short-term impact plan. Both plans aim to deliver prosperity for all Namibians, based on the requirement for effective governance.

The president, Dr Hage G Geingob, in his 2018 State of the Nation Address reconfirmed the commitment to governance fundamentals. Transparency International rated Namibia in the top tier, at 53 out of 176 countries surveyed, and the fifth least corrupt country on the continent in 2017. According to the Ibrahim Index of African Governance, Namibia is first of 18 countries in Africa to have achieved consistent improvements in governance over the last decade.

The president, in his address, recognised that Namibia's recent economic downturn was due to the country being overly dependent on consumption and government spending, which highlighted the need to rebalance the growth model from consumption-driven to investment-led growth.

Namibia's economy is in recession after GDP contracted for three consecutive quarters, albeit with a slight improvement in the first quarter of 2018, which recorded a 0.1% contraction. Average inflation slowed to 3.5% compared to 7.7% in the first quarter of 2017.

According to the Bank of Namibia (BoN), net collection of taxes on products was lower than expected in 2017, with the same trend evident in diamond mining volumes and growth for the public sector.

Growth is expected to increase to 1.2% and 1.6% in 2018 and 2019, respectively. Over the medium term, growth will be supported mainly by anticipated improvements in valued added tax, wholesale and retail trade, construction, and sustained growth for transport and communication. Furthermore, uranium mining is expected to register robust growth rates during 2018 and 2019 and will increase its contribution to mining and overall growth. Climate change is expected to negatively affect the performance of the agriculture sector from 2018 onwards.

The repo rate is currently at 6.75% following a 0.25% downward adjustment in August 2017.

A slowdown in private sector credit extension (PSCE) growth in Namibia continued into 2018, but is expected to recover due to an improvement in bank funding, liquidity and improving margins between funding and lending rates. However, highly indebted households with weakening disposable incomes, particularly in real terms, mean that household creditworthiness remains a prohibiting factor for a strong growth recovery.

In addition, a generally weak business environment has resulted in a muted corporate demand for credit as business expansion and reinvestment is put on hold. While credit supply is therefore showing signs of improvement, the demand remains relatively weak.

Total PSCE growth for 2018 is expected to be slightly more than 6.3%, primarily driven by households.

An International Monetary Fund (IMF) assessment of Namibia's financial system stability in February 2018 confirmed that the financial sector is dominated by four large and heterogeneous financial conglomerates, between them accountable for 98% of total bank assets. Three of these are subsidiaries of South African banks.

A stress test done as part of the assessment indicated that banks will remain profitable and well capitalised even in adverse scenarios.

However, the IMF report concluded that banks are vulnerable to counterparty and portfolio concentration risks. Liquidity stress tests suggest that three of the big banks would face moderate liquidity shortfalls one to two months after the liquidity shocks, owing to their reliance on wholesale funding. Property and casualty insurers appear resilient, but some life insurers and the funding levels of pension funds are susceptible to equity market shocks.

Levels of financial inclusion in Namibia compare favourably to peer economies, but despite the large and sophisticated financial system, a significant share of the low-income and rural population remains excluded from formal financial services.

Fitch Ratings downgraded Namibia's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'BB+' from 'BBB-' with a stable outlook at the end of 2017.

## Operating context: Botswana

Botswana welcomed its fifth president, Mokgweetsi E K Masisi, who was sworn in on 1 April 2018, ahead of 2019 general elections. In his inauguration speech, he reiterated the government's commitment to diamond beneficiation, tourism, beef, mining and financial services as pillars of the economic diversification drive. Investors await developments and initiatives that will address ease of doing business, elevated joblessness and low household disposal income.

Botswana adopted its Economic Stimulus Programme in 2016/2017 to boost economic growth, promote economic diversification and create jobs amid weak recovery of both the global and domestic economy. The country is currently guided by the Eleventh National Development Plan (NDP 11) and Vision 2036.

According to the Minister of Finance, in his budget speech in February 2018, efforts to diversify the economy have yielded positive results during the past decade. The share of the mining sector in the domestic output declined from 25% in 2008 to 20%, thereby reducing overall economic reliance on the sector.

The rate of unemployment declined from 26.2% in 2008 to 17.7% in 2016, and the proportion of people living below the poverty datum line continues to decline. In 2017, Botswana managed to maintain an "A investment grade" rating from both Standard & Poor's and Moody's Investors Service rating agencies. These ratings are necessary for attracting foreign direct investment, which is a prerequisite for economic growth and job creation in the economy.

According to the Bank of Botswana, real GDP grew by 2.4% in 2017 compared to 4.3% in 2016, with the most significant impact from the contracting mining sector. The fiscal situation remains tight, with a budget deficit projected for the 2018/2019 financial year.

Bank of Botswana reduced the bank rate by 50 basis points in October 2017, from 5.5% to 5.0%. Since then, the monetary policy committee has left the benchmark rate unchanged, indicating that the current policy stance remains consistent with a positive outlook for inflation and domestic and global economic growth. This has created an expectation that the central bank will hold the policy rate steady for the rest of 2018.

Inflation is expected to remain within the lower end of the monetary policy target range of 3% – 6%.

Annual growth in commercial banks' credit continues to be constrained, which is exacerbated by higher rates of credit defaults and debts written off. 60% of total debt consists of credit to the household sector, which remains under pressure.

## Operating context: Zambia

According to the Minister of Finance's full report on the Status of Zambia's Economy, released in April 2018, the economic environment is largely stable and GDP growth projections for 2018 remain on target, building on the 4.1% growth rate registered in 2017.

Interest rates continued to decline in 2018, whereas lending rates remained elevated and lending was primarily directed at government, thereby constraining private sector growth. However, overall economic activity started picking up early in 2018 due to invigorated copper production, robust growth in cement production, increased tourism arrivals and electricity generation.

Inflation showed an increasing trend to 7.4%, attributed to higher fuel prices and the subsequent rise in transport costs.

## Capricorn Group's strategic response directed by four choices

Capricorn Group follows a future-orientated strategic development and review process based on data, robust discussion and debate. In 2017, the board approved the AsOne 2020 strategy, which is based on four strategic choices:

Focus on building and extending the group's foundation in Namibia, Botswana and Zambia.

Develop all-round capabilities in effective strategy execution that improves customer service.

Explore strategic partnerships in Namibia, Botswana and Zambia.

Explore technological/borderless/cyber opportunities that will define banking in the next 10 – 15 years.

All group entities have now aligned their strategies according to the group methodology. Centres of expertise strategies were also developed and aligned to the group strategy for information technology, digital, human capital, brand and corporate affairs as well as enterprise risk management. In each case, operating models to drive implementation were developed and implemented.

## Achieving operational excellence

Operational excellence was deliberately chosen as the way in which the four strategic choices are implemented. This guides the following:

- Building a corporate culture aimed at efficiency gains
- A lean organisational design where resources are allocated to the customer-facing part of the business
- Investing in knowing and serving customer needs
- Building highly effective and efficient business processes with the customer in mind

The group capabilities that drive operational excellence include:
- Client excellence
- Efficient and effective processes
- A streamlined organisation
- Strong underlying and foundational capabilities

The group competencies that support operational excellence include:
- Understanding of the competitor environment
- Relentless drive to improve performance
- In-depth business insight
- Unlock potential in self and others
- Excellence in execution
- Drive client impact

Through operational excellence, the group is able to build a business that makes a difference to broader society, ensuring that it will be around for generations, while creating a business with a culture that employees identify with and want to be a part of.

## Progress with strategic implementation and measurement

Progress with the implementation of these choices is measured through board-approved indicators and targets. Delivery against operational targets is reported to the board on a quarterly basis and includes growth in market share and business process improvements per bank.

Customer-specific initiatives include the development, approval, enablement and introduction of a customer strategy and customer maturity journey for each entity. An analysis per business entity was completed and customer metrics dashboard designed for each.

An Africa customer strategy forum was also established to drive execution of the customer strategy while transforming the culture to be more customer centric. The forum comprises members from each of the Capricorn Group business entities.

A Chief Operating Officer's (COO) forum, comprising the Chief Strategy Officer and entity COOs, drives the implementation of operational excellence as per the group and entity strategies.

## Progress through performance management

The AsOne 2020 strategy roll-out is supported by a new performance development approach, increased communication and the launch of the Connector Programme.

A new performance development approach was launched during the year to ensure that the group's organisational and employees' individual goals and objectives are effectively achieved. This includes identifying, evaluating and enhancing the performance of employees with the commensurate benefits in terms of recognition, regular feedback and career guidance.

The fundamental goal is to establish a culture in which employees and teams take responsibility for the continuous improvement of business processes, their own skills and contribution.

In terms of the new approach, 5Cs will be measured from the start of the 2019 financial year:

1. Customer
2. Colleague
3. Citizenship
4. Conduct
5. Company

The performance of the employee against objectives (what) and against The Capricorn Way behaviours (how) will be measured. The process includes annual consistency checks to ensure objectivity and alignment to overall business performance.

## The Connector Programme supporting strategy implementation

The new performance development approach depends on a wide understanding of the AsOne 2020 strategy. To ensure continuous alignment and to embed the strategy throughout the group, the executive management teams use a strategy communication presentation, which also forms part of the employee onboarding programme. Participants in the Connector Programme are encouraged to spread the strategy message in their areas of influence.

The Connector Programme, launched in October 2017, is a tool created for communicating the group's purpose, vision, values and the behaviours as well as other elements of The Capricorn Way that support the drive to becoming true connectors of positive change.

The purpose of the programme is twofold:

1. To embed the work done by the AsOne strategy through The Capricorn Way, the new brand values, brand proposition, purpose, customer propositions and frameworks.
2. To provide a platform for the ongoing communication, engagement, interaction and embedding of the Group's new AsOne strategic choices for the period 2018 – 2020.

105 Connectors from four countries participated in the first conference to encourage networking and to expose Connectors to multiple perspectives, while creating awareness around the AsOne strategy and risk culture. The Connectors have a key role in shifting the mindset within all Capricorn Group employees to a more future-focused, open, collaborative regional approach to the business.

Capricorn Group also launched The Capricorn Way recognition platform. This aims to shape the culture, unlock potential and recognise exceptional performance. The platform will be rolled out according to two phases and includes formal and informal monetary and non-monetary rewards.

In addition, the Capricorn Group annual awards recognise individuals within the group who have demonstrated that they are connectors of positive change in addition to outperforming their peers against targets.

Retail Awards are based on criteria such a new current account growth, funding growth and net profit growth, whereas treasury, corporate and institutional banking and Capricorn Private Wealth receive awards based on business aspects. Other awards recognise activities such as client service, innovation and corporate responsibility.

## Matters that are material for sustainable value creation

Capricorn Group's list of material reporting matters was first identified by a diverse internal team in 2016 and was included in the 2016 Integrated Report. In January 2017, the Capricorn Group board and executive team reviewed the material matters, given changes in the external environment, the group's risk profile, expanded footprint and evolving strategy. The adjusted list was included in the 2017 Integrated Report and up to that point reflected a predominantly internal perspective.

For the 2018 report, the material matters were tested with Capricorn Group's external stakeholders to achieve the following:

- to test the material matters for robustness, relevance and gaps
- to enable the Capricorn Group team to start building and owning relationships with material stakeholders
- to identify any new stakeholder concerns and expectations or topics for future engagement

Capricorn Group believes that stakeholder engagement is important because it:

- enables the group to sense the needs of stakeholders and to respond appropriately
- ensures engagement with stakeholders in a customised, coherent and consistent way across the group
- enables better planned and more informed policies, programmes and products/services aligned to stakeholder expectations
- supports the group's other strategic initiatives
- positions stakeholder engagement as an enabler of the group's business success
- facilitates effective internal collaboration and knowledge sharing about stakeholder interests, needs and positioning
- communicates the importance that the group places on engaging with its stakeholders

Read more about stakeholder engagement highlights for the year in the BSEC report on page 104.

The main stakeholder groupings for the material matters engagement were identified as:

- government
- regulators
- customers
- employees
- media
- analysts
- shareholders
- strategic alliances
- suppliers
- communities

Engagement with stakeholders took the form of individual interviews, focus groups and an online survey which were undertaken in Namibia, Botswana and Zambia, the countries in which the group operates.

Feedback indicated that all the matters identified by Capricorn Group are also material to stakeholders. The engagement highlighted different areas of emphasis within the scope of the material matters, which were applied to the refined list and submitted to the Group board. The material matters were approved by the board in January 2018 with recognition that non-performing loans and credit risk are emerging issues for the group. The material matters for 2018 are:

1. Meeting individual customer needs and expectations
2. Fintech, insurtech and evolving digital assets
3. Demands for specialist skills driving focused development, training and diversity initiatives
4. Liquidity, credit risk and regional economic growth prospects
5. Mitigating financial crime, corruption and fraud
6. Environmental, social and governance challenges
7. Enhancing and optimising management and operational systems
8. Responding to a changing regulatory and operating landscape

The group's key risk indicator dashboard provides data to measure aspects of the material matters.

## Meeting individual customer needs and expectations

Megatrends such as urbanisation, enabling technology and globalisation contribute to changing customer demographics, needs and expectations. Needs range from advice on personal financial options to tools to increase financial literacy, access to infrastructure and a range of convenience expectations. A further megatrend relates to the consumer shift towards personal trust relationships enabled by technology.

Customer centricity is becoming a core competency for banks, with data management, statistics and analytical modelling essential capabilities. A customer-centric approach is critical to creating value and requires insight into the evolving characteristics and needs of current and prospective customers, as well as customers' customers. These insights inform increased product flexibility and the identification of market opportunities.

### Capricorn Group's response: how is this measured and mitigated?

Through its brand proposition, Capricorn Group made a promise to all customers to be a catalyst of sustainable opportunities. The group continues to refine its customer value proposition by organising the business around customers instead of products or channels and improving the customer experience by integrating sales and service efforts.

Bank Windhoek is a member of the Bankers' Association of Namibia and subscribes to the Code of Banking Practice in Namibia. The voluntary code sets standards of good banking practice for financial institutions to follow when dealing with customers. The fundamental principles of the code include acting fairly and reasonably in customer dealings, promoting better-informed decisions about banking products and services, and ensuring that all products comply with the relevant laws, regulations and standards.

Initiatives that support the group's intention to meet customers' needs and expectations include the opening of a new in-house customer contact centre in June 2018, providing a 24-hour inbound service for all three banks. Apart from saving the group about N$2 million per annum, the new contact centre will significantly improve customer service by delivering seven new additional services, first-time call resolution and an outbound sales and social media capability.

A further initiative is the "branch of the future" design project. The new design aims to optimise the customer experience while reducing the size of the typical branch layout, saving on employee and rental costs. The flow in the branch will adhere to world-class principles, making optimal use of space and shortening process times.

All three retail banks, Bank Windhoek, Cavmont Bank and Bank Gaborone, conducted customer service research to establish overall customer satisfaction and loyalty, based on the quality of service delivery, and customer experience, measured on a number key metrics. A high level summary of the results follows below.

Bank Windhoek and Bank Gaborone's retail banking customers have excellent perceptions of overall service delivery in the branches, and Cavmont Bank performs well in the areas of credibility (honesty and trustworthiness of staff) as well as safety and security. Bank Windhoek's reputation is also highly regarded across its client base, which reflects the strong brand equity that has been built over time.

Positive service perceptions across the wealth, wholesale and corporate segments are largely driven by the relationship managers who provide excellent, personalised service to clients and make it easy to deal with each of the entities.

Going forward, the banks have the opportunity to build on the superior service delivery by its people through the innovative use of technology in transactional banking services, products and digital functionality, to address future customer needs.

The customer survey results will be used to develop action plans for implementation in the new financial year.

Customer complaints are tracked across Capricorn Group by all entities with overall results indicating an increase of 69% from 970 in 2017 to 1,638 in 2018. The significant increase follows improvements in the registration processes of complaints received and the implementation of a customer strategy dashboard.

Customers

Employees

Government and regulators

## Meeting individual customer needs and expectations (continued)

### Capricorn Group's response: how is this measured and mitigated? (continued)

Compliments increased by 255% from 431 in 2017 to 1,532 in 2018. Bank Gaborone receive the highest number of compliments.

More process improvements are underway as the entities use different measurement and recording methodologies. The customer strategy team is in the process of enhancing the customer complaints and compliments processes through a policy, which will standardise recording mechanisms and dashboards, and allow for improved management of complaints and compliments. This will further enable trend identification and analysis, the mining of customer insights, severity levels, root cause identification linked to Treating Customers Fairly principles and the channels used by customers to log complaints and compliments.

Media coverage is tracked on a monthly basis in Namibia to determine any reputational risk. The positive position of Bank Windhoek in the media is maintained by ongoing and proactive media engagement, while any negative commentary is managed through relationships and by communicating the bank's stance and initiatives in place to address any issues.

**Related strategic choice**

Building the foundation in Namibia, Botswana and Zambia

Effective strategy execution

## Fintech, insurtech and evolving digital assets

Disruptive innovation is inherent in the terms "fintech" and "insurtech", which relate to the ways new technology is applied to traditional financial services practices, products and systems. Disruption takes many forms, rendering some offerings obsolete and significantly affecting pricing. An example is the launch of digital-only banks with no branches and using free, open-source technology.

Fintech offerings often originate from non-traditional competitors who are designing flexible and dynamic solutions in direct competition with banks.

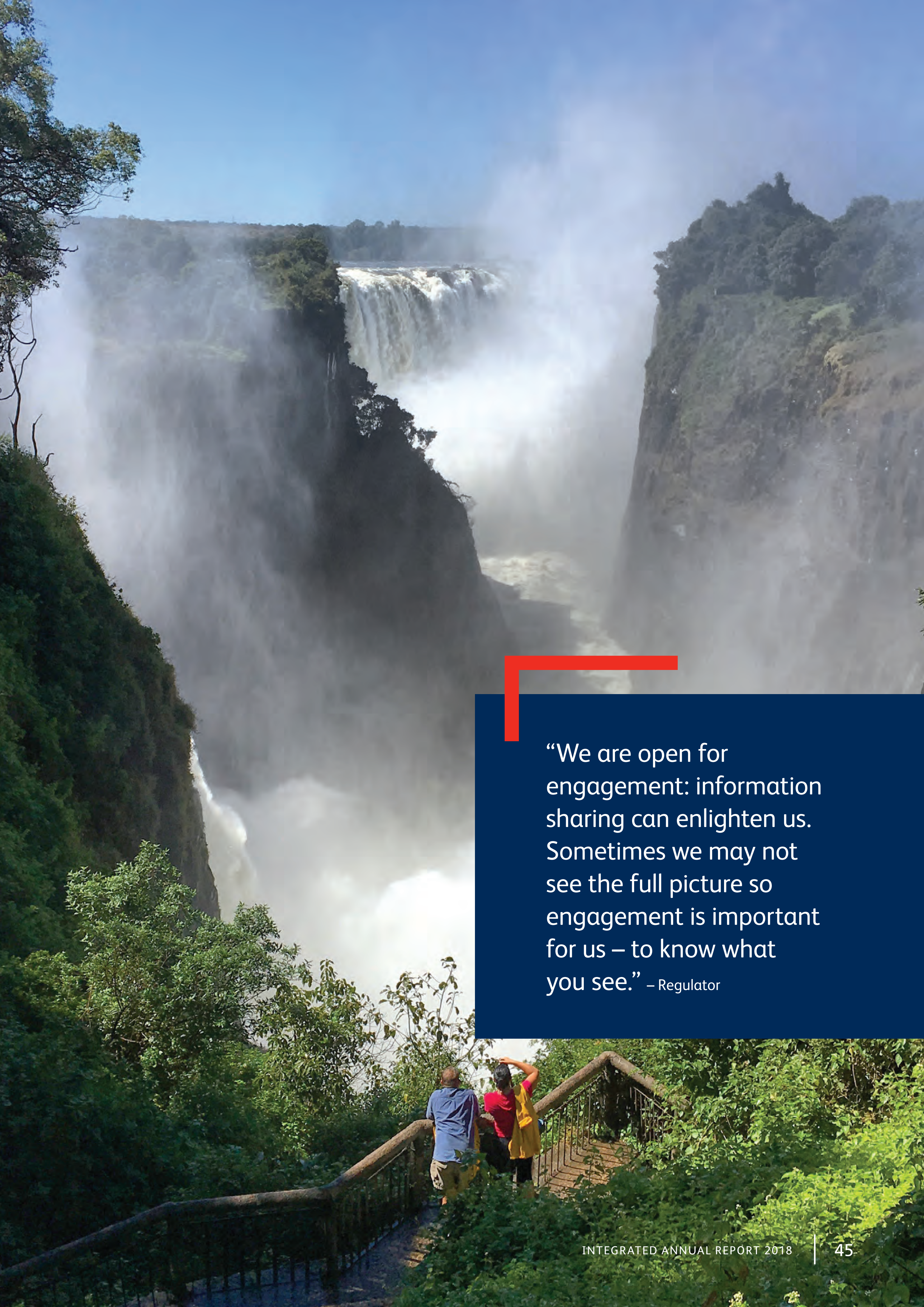
Blockchain technology, for example, can facilitate the real-time, open-source and secure transmission of data and value, which has attractive potential for payment systems and new product offerings.

The dynamic nature of fintech offerings is a challenge for regulators, who are responsible for ensuring stable markets and for protecting customers. The emergence of crypto- and digital currencies have further challenged the notions of regulation, borders and financial value.

The BoN published a revised position on cryptocurrencies in May 2018, taking a strong stance against the use of these currencies as a method of payment for goods and services. It advises against using cryptocurrencies to store wealth, savings or earnings due to their unregulated and highly volatile nature.

Alternative currencies are nevertheless gaining global momentum, with cryptocurrency ATMs being launched in the southern African region. Cryptocurrency ATMs allow users to buy and sell cryptocurrencies for cash without requiring a bank account.

Read more about digital trends in banking earlier in this section on Capricorn Group's strategic landscape.



"We are open for engagement: information sharing can enlighten us. Sometimes we may not see the full picture so engagement is important for us – to know what you see." – Regulator

## Fintech, insurtech and evolving digital assets (continued)

### Capricorn Group's response: how is this measured and mitigated?

Capricorn Group is making strategic and operational investments in fintech opportunities in support of its strategic choice to target technological and cyber opportunities.

Through Nimbus, the group made a strategic investment in Namibia telecommunication operator, Paratus, which is developing a regional bandwidth network connecting Namibia, Botswana and Zambia. Read more about the transaction and rationale in the leadership report on page 11.

In terms of its own operations this year, Capricorn Group developed its first, formal digital strategy in support of the group's AsOne2020 strategy. This provides a focused approach towards investing in and growing the group's digital assets. Digital roadmaps have been developed and are continually reviewed to extend to all channels, products, services and processes.

The Bank Windhoek ATM channel was refreshed to adopt the group's latest corporate identity standards and, unique to the Namibian market, eight indigenous languages were added to the ATM functionality in addition to the customary English and Afrikaans.

Bank Windhoek's EasyWallet offering has now been available for a full financial year, with uptake and use surpassing all expectations in terms of profitability. To support the Capricorn Private Wealth launch, uniquely branded internet banking and mobile app channels were developed. In Botswana, the Bank Gaborone internet banking solution was replaced by the group's latest multichannel platform offering. In Zambia, the bank's digital channel offering is in the process of being extended to include a USSD cellphone banking channel.

Resource availability and capacity remains an overarching constraint for digital delivery across all group entities. This is particularly challenging at Bank Gaborone and Cavmont Bank, resulting in the group taking a more centralised support approach.

Significant investment continues in the group's enterprise data warehousing capability from which analytical insights will inform all future investments in physical and digital assets.

Customers

Shareholders

Government and regulators

**Related strategic choice**

Strategic partnerships

Target digital opportunities

| Indicator | Bank Windhoek | Trend |
|---|---|---|
| % Growth in mobile app use | 73.9% | ↑ |
| % Growth in iBank use | 8.1% | ↑ |
| % Growth in cell phone banking | 14.2% | ↑ |
| % Growth in point of sales | 12.6% | ↑ |

## Demands for specialist skills driving focused development, training and diversity initiatives

According to the World Economic Forum's executive briefing on The Future of Jobs and Skills in Africa, published in May 2017, employers across the region identify inadequately skilled workforces as a major constraint to their businesses. Professions currently trending on the continent include the creative industries; food technologists; 3D designers; data centre workers; and care, education and health workers. The briefing emphasises the need for future-oriented skills development and constructive public-private dialogue for urgent and fundamental reform of education systems and labour policies to prepare workforces for the future of jobs.

The Harambee Prosperity Plan recognises that the provision of quality skills is one of the major constraints to competitiveness in Namibia. The plan commits to addressing the gap between the demand for and supply of skilled labour by supporting practical training programmes and the streamlining of the system for the import of skilled labour.

Specific human capital challenges for Capricorn Group in Namibia include recruiting specialised skills such as digital and investment banking, creating a diverse and more inclusive employee value proposition for different generations, and maintaining high levels of employee engagement.

In Botswana, succession for key value roles remains challenging, especially in the short term.

Zambia's most significant human capital challenges for Capricorn Group include building a strong leadership capability, providing a competitive remuneration proposition, and enabling employee engagement.

### Capricorn Group's response: how is this measured and mitigated?

Capricorn Group's growth ambitions require the availability of specialist skills, including technical and specialised competencies, qualifications and experience related to financial services, compliance and risk management, IT and digital development. With changing client demographics, the group's skills requirements are also shifting, so that, for example, meaningful international experience and a global orientation are required.

Whereas certain skills may be limited or unavailable in each subsidiary's home country, the formation of Capricorn Group has created a regional skills pool, with the potential to transfer skills and broaden career opportunities in the group as a recruitment benefit. The attraction and retention of engaged, high-performing and highly skilled employees remains critical and is underpinned, in all three countries, by the continued commitment to prioritise the development and employment of local skills to impact positively on employees, communities and the group.

Capricorn Group is in the process of re-evaluating the core and critical skills required to successfully lead the group into the future of banking. While the focus was previously on finding and attracting experienced banking candidates, this is no longer an absolute prerequisite. Skills are actively sought from various sectors, allowing for additional and extraordinary inputs from a completely different angle. The assumption is that there is strength and opportunity in a diverse workforce.

Internally, Capricorn Group is refining the previous Leadership Development Framework to establish leadership capabilities across the group linked to specific development plans and leadership programmes. The Capricorn Talent Academy's in-house leadership development programme is evolving and all course content has been aligned to the new world of work and concepts like digitisation and exponential thinking. Content has also been mapped against the group competencies.

The Candidate Banker Trainee Programme remains one of the group's flagship development and empowerment programmes for future bankers. The Graduate Development Programme continues to address the skills shortage within the retail banking space.

A survey was done to establish employee engagement levels in terms of commitment, willingness and retention. 78% of employees participated, of whom 75% are semi to fully engaged (key contributors and star performers).

From the survey feedback, it was evident that Capricorn Group employees experience high levels of cohesion, trust and mutual support among team members. They are aware of The Capricorn Way and recognise its impact. Employees understand the vision and strategy of the group.

Employees

Communities

## Demands for specialist skills driving focused development, training and diversity initiatives (continued)

### Capricorn Group's response: how is this measured and mitigated? (continued)

Inhibitors to engagement include a lack of recognition, insufficient opportunities to develop and learn new skills, and the perception that employees are not able to voice their opinions or their opinions are not valued.

In response to the survey results, a recognition programme will be added to the existing reward framework to give employees the opportunity to recognise each other for living The Capricorn Way.

Future priorities include developing a pipeline of talent in the market for vacancies, including networking with schools of excellence to identify future candidates. This will be effected by proactive workforce demand planning and a revision of competency profiles.

A total investment of close to N$4.5 million was made in training initiatives, with a further N$3,153,868.0 allocated to external bursaries and studies for employees.

The indicators for human capital that are tracked group-wide on a monthly basis showed a positive increase in diversity, development and employment trends. However, there is a need to be more focused on training for racially disadvantaged employees, especially at senior levels, including development for female employees. With the roll-out of new leadership development courses there is an opportunity to target employees between the ages of 25 – 35 to develop emergent leaders. Staff turnover increased slightly, but the regretted losses were low.

**Related strategic choice**

Building the foundation in Namibia, Botswana and Zambia

Effective strategy execution

| Indicator | Group | Trend |
|---|---|---|
| Female permanent employees (%) | 63% | ↓ |
| Racially disadvantaged permanent employees (%) | 78% | → |
| Women in senior management (%) | 30% | ↓ |
| Women in middle management (%) | 60% | ↑ |
| Racially disadvantaged in senior management (%) | 30% | ↓ |
| Racially disadvantaged in middle management (%) | 61% | ↑ |
| Non-Namibian workforce (%) | 2% | ↑ |
| New employees age <24 (%) | 28% | ↑ |
| New employees age 25 – 35 (%) | 52% | ↑ |
| New employees age 36 – 45 (%) | 11% | ↓ |
| New employees age 46 – 55 (%) | 9% | ↑ |
| Staff turnover annualised (%) | 5.87% | ↓ |
| Training hours Bank Windhoek, CAM and Namib Bou | 2,600 hours | ↓ |
| Training hours Bank Gaborone | 3,304 hours | ↑ |
| Training hours Cavmont Bank | 400 hours | ↑ |

"It is important to have old wise trees around because they paved the way but they should not overshadow the new grass, flowers, branches trying to come up below those trees. For sustainability we need to look back at our predecessors and listen but then also tell old trees, 'you had your time'. You have to move with the time, respect the wisdom but work with the younger generation or you will become outdated."

– Community stakeholder

## Liquidity, credit risk and regional economic growth prospects

A slowing and increasingly indebted economy poses a major credit risk to the Namibian banking sector. The legislative and regulatory framework for credit risk in Namibia, therefore, requires banks to establish credit risk management processes that provide a comprehensive view of their credit risk exposures. This is enhanced by comprehensive BoN internal on-site guidelines for credit risk reviews.

Economic growth is to a large extent aligned with concentration risk in a country. Where a country such as Botswana is highly dependent on diamond mining as a contributor to GDP, low diamond prices have a significant impact. In Zambia, GDP growth is closely linked to copper. Fortunately, these commodity cycles tend to be relatively short, which means that Zambia, for example, is now benefiting from an upturn following depressed copper prices in the past two years.

In Namibia, concentration risk is related to government expenditure, which has acted as a catalyst for growth in the past. In recent years, government investment in non-productive assets, a weakening exchange rate and spiralling debt resulted in a contracting economy, characterised by severe liquidity pressures.

With liquidity closely linked to economic growth, prospects in the region unfortunately remain subdued based on persistent challenges: high unemployment, weak commodity prices, fiscal strain, increasing debt and high inflation. Combined with the environmental, social and governance challenges listed elsewhere in this section, liquidity and business confidence is expected to remain under pressure.

According to Fitch Ratings in November 2017, cuts in public investment in Namibia have taken a toll on domestic demand and activity in the construction sector. The expansion of mining output has also been slower than expected due to weak uranium prices.

The Namibian government's ability to meet its financial obligations remain uncertain. There is also concern about the way in which issues are being prioritised, and the systemic nature of these.

Distressed repayment ability of customers due to decline in growth as well as increased uncertainty is expected to remain challenging, particularly in Namibia, and to affect all participants in the financial services industry. This is most evident in the increased trend for non-performing loans. In Namibia, the ratio of non-performing loans to gross loans was at its highest level in 2010.

## Capricorn Group's response: how is this measured and mitigated?

For Capricorn Group, credit risk is most evident in the rate of non-payment in loans, which deteriorated group-wide in the past year. Non-performing loans are calculated as the total loans in non-performing status (i.e. legal collections branch) divided by the gross loans and advances. The increase in non-performing loans is due to the effects of the deterioration of the macroeconomic environment and the various movements in the economy over the past two years. The trend is expected to flatten out in the next financial year. Recoveries are managed proactively and more focus has been placed on identifying clients at risk. Read more about credit risk management in the risk and compliance report on page 95.

Constrained and unpredictable market liquidity can impact Capricorn Group's ability to fund the needs of the economy, thereby constricting growth. Guided by a liquidity risk management process and framework, the group strives to hold an adequate liquid asset surplus that can cater for unexpected outflows. The group has also put in place a N$1 billion liquidity facility to fund a committed contingency facility to the three operating banks. This has significantly reduced the liquidity risk within the group.

Shareholders

Government and regulators

Funders

## Liquidity, credit risk and regional economic growth prospects (continued)

### Capricorn Group's response: how is this measured and mitigated? (continued)

Reduced liquidity in a system typically results in higher cost of funding as entities have to compete for a shrinking pool. Read more about funding costs and the impact on margins in the leadership report on page 18.

The minimum requirement of liquidity to be held is set out by the central bank in each of the territories where the group operates. The banks measure the amount of surplus available compared to the minimum they have to hold on a daily basis.

The overall liquidity position in the group improved during the year, parallel to an improvement in the overall market. Liquidity risks remain evident in Botswana because of the possible centralisation of funds. This is being tracked and proactively monitored by Bank Gaborone and the group.

Bank Windhoek's loan-to-funding ratio (LFR), which measures total loans divided by the total funding for the entity, is actively tracked by the BoN, which has expressed a concern that current levels are too high. Given the above, the LFR has improved in the year under review. There are action plans in place, which are actively tracked and monitored, to ensure Bank Windhoek complies with the BoN limits as required. Bank Gaborone remained stable over the year while Cavmont Bank improved on LFR

**Related strategic choice**

Effective strategy execution

| Indicator | Group | Trend |
|---|---|---|
| Liquidity surplus above minimum requirements | 59% | ↑ |
| LFR ratio | 90.8% | → |

## Mitigating financial crime, corruption and fraud

Globally, individuals and businesses are threatened by the rising number of incidents, the growing scale and the increasing complexity of financial crime, including money laundering, identity theft, card skimming and phishing. Failure to identify and manage these risks could result in damage to reputation and a loss of income, which would jeopardise the group's growth and contribution to a stable and trustworthy financial services industry.

According to PwC's 2018 Global Economic Crime and Fraud Survey, 53% of Namibian organisations have experienced economic crime. Junior management is perceived as the most significant internal threat whereas customers and hackers are identified as the main perpetrators of external fraud.

The survey further found that 92% of Namibian respondents were made aware of the most disruptive incidents of economic crime when these were brought to the attention of the board, executives or governance leaders from within their organisations.

### Capricorn Group's response: how is this measured and mitigated?

The impact of financial crime, corruption and fraud is best mitigated by a collective and collaborative approach by the industry and relevant stakeholders. Sharing data and centralising resources are the most effective ways to identify risk and develop interventions that proactively prevent either systemic or unilateral threats.

## Mitigating financial crime, corruption and fraud (continued)

### Capricorn Group's response: how is this measured and mitigated? (continued)

Capricorn Group extended its proactive fraud detection capability and reinforced the values of personal integrity and ethics through culture-building initiatives and leadership development programmes.

The group uses technology to support the proactive prevention and identification of financial fraud before losses occur. Awareness campaigns aimed at employees and customers improve fraud awareness and empower people with the knowledge to stay informed about trends. Furthermore, internal awareness of information security priorities is created through device and data protection measures, incident responses and support mechanisms.

The group supports government law enforcement entities with investigations of financial crime.

Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour and organisational integrity have been implemented. The group has a Code of Ethics and Conduct Policy to which all directors and employees are required to adhere. The BSEC has oversight of the Capricorn Group's ethics risk agenda and ethics framework.

The introduction of chip card has significantly reduced card fraud losses at Bank Windhoek and Bank Gaborone. The proactive monitoring of card and internet banking further prevents fraudulent transactions. Bank Windhoek continues to focus on identifying fraud control failures and improving these.

Bank Gaborone launched specific initiatives to train employees on financial crime trends such as the use of fraudulent identification documents and card cloning. Customers received regular updates via SMS and social media platforms as to how they can protect themselves from fraud and financial crime.

Shareholders

Government and regulators

Employees

Customers

**Related strategic choice**

Effective strategy execution

Target digital opportunities

| Indicator | Group | Trend |
|---|---|---|
| Losses due to financial crime | N$6.2 million | ↑ |

“The more shareholders are involved in the growth of the company the more sustainable it is.”

– Shareholder

## Environmental, social and governance challenges

According to the World Economic Forum's 2017 Africa Competitiveness Report, the continent remains challenged by large infrastructure deficits, significant skill mismatches, slow adoption of new technologies and weak institutions. These factors, in addition to weak financial sector development and low levels of regional trade and integration, emerge as the main bottlenecks preventing African economies from providing an environment that facilitates better employment and entrepreneurship opportunities.

However, the continent's young and growing population can be a catalyst for rapid development. A growing labour force and a large and emerging consumer market hold the promise of significant growth.

Financial institutions have the ability to initiate, facilitate and support the systems and projects that enhance competitiveness and stimulate the economy. In considering investment options, environmental, social and governance (ESG) concerns are becoming an increasingly important factor when evaluating large projects or developing new products and services.

The decision to fund a mining company, for example, has to consider potential environmental, labour, health and waste impacts on communities against financial returns. The opportunity to gain new market segments by offering solutions to previously unbanked customers has to consider obstacles such as physical distance, minimum balance requirements, little to no credit and low income flows.

Financial inclusion, in particular, has the potential to support a wide range of the United Nations Sustainable Development Goals (SDGs). It is a mechanism to reduce poverty, accumulate assets and increase economic participation.

It is widely recognised that digital financial services improve access while at the same time enabling banks' ability to monitor transactions and activities in the financial system. This helps improve risk management, including the ability to prevent money laundering.

The potential impact of climate change as an environmental, social and governance challenge for the region is significant. The SADC region is particularly vulnerable to increased frequency of floods, cyclones and droughts which may damage infrastructure, destroy agricultural crops, disrupt livelihoods and cause loss of life. These impacts will increasingly influence investment and insurance decisions.

## Capricorn Group's response: how is this measured and mitigated?

Multinational companies in emerging markets, such as Capricorn Group, are well positioned to deal with and meet regional challenges due to their diversified footprint, their ability to apply learnings from one territory to another and their approach to systemic risk management.

Capricorn Group's stakeholders look to the group for leadership in economic value creation, while contributing to the sustainability of communities and the environment in the region.

During the year Bank Windhoek received funding and technical assistance from the Sustainable Use of Natural Resources and Energy Finance (SUNREF) initiative. SUNREF was developed by Agence Française de Développement (AFD) to support financial institutions and their clients to boost financing for projects for sustainable natural resources management, with a focus on clean energy.

SUNREF provides an affordable line of credit together with technical assistance and credit facilities to overcome financial barriers.

The SUNREF support enabled Bank Windhoek to actively facilitate the financing of various renewable energy projects, which in turn will result in long-term benefits to the Namibian economy. The following projects are underway:

- Aussenkehr and Trekkopje solar power plants
- Oab wind energy plant at Namdeb Elizabeth Bay Diamond Mine, near Lüderitz
- Okatope solar plant near Ondangwa

Various large-scale projects are in the pipeline and currently under investigation.

Communities

Government and regulators

## Environmental, social and governance challenges (continued)

### Capricorn Group's response: how is this measured and mitigated? (continued)

SUNREF also provided technical assistance that supports informed decision-making and employee education in allocating finance.

Social challenges are mainly addressed via the group's corporate social responsibility (CSR) programmes. A guideline was adopted to allocate 1% of profit after tax for CSR initiatives group-wide. This target was exceeded. Activities for the past year included:

- social investment fund projects in line with the policy focus areas of job creation, entrepreneurship and education
- small and medium enterprise mentorship, training and development
- consumer education and financial literacy programmes and initiatives
- employee volunteer programmes
- fundraising initiatives for cancer through the Bank Windhoek Cancer Apple Project
- bursaries to employees and students
- employee training and development
- sponsorships in various fields
- sports development
- arts and culture development
- donations to social welfare projects including poverty and hunger alleviation
- environmental projects
- youth development
- animal welfare

In terms of addressing environmental challenges, and in support of the climate action SDGs, the group has launched a carbon footprint initiative this year.

Bank Windhoek continues to refine its environmental and social management system (ESMS) to ensure credit is allocated responsibly. Bank Windhoek's environmental and social risk concentration is spread out over predominantly medium- (40%) and low-risk (36%) sectors, with approximately one quarter (24%) concentrated in high-risk sectors. As the group is exposed to several industries vulnerable to climate change impacts, the ESMS will be critical in identifying, mitigating and monitoring these risks. In Namibia, sensitive sectors include, for example, mining, agriculture, fishing, manufacturing and construction industries.

The ESMS is now fully embedded as part of the credit approval process. In the near future, developments in the ESMS will include building the management system into the online banking system, which will greatly improve usability and data quality and will allow staff to remotely access client information.

The permit reference manual will be launched in the next financial year, which will help credit employees ensure their clients are compliant with national environmental and social laws and regulations. They will be able to assist clients where the requirements are not met. Employees will also undergo continuous training in environmental and social risk management. As Bank Windhoek's experience in applying environmental and social risk management grows, the ESMS will further be critical in identifying sustainable financing options, especially in water management and renewable energy.

Employees

Customers

**Related strategic choice**

Strategic partnerships

Effective strategy execution

| Indicator | Group | Trend |
|---|---|---|
| Total investment in CSR | N$23.6 million | ↑ |

## Enhancing and optimising management and operational systems

Continuous change and innovation in systems, and the increasingly novel solutions offered by IT, bring opportunities for enhanced internal effectiveness and process optimisation. This, directly and indirectly, increases the positive impact on shareholders, employees and customers.

The critical success factors for retail banks seeking to achieve operational excellence generally include improving end-to-end performance, developing efficient and effective processes, streamlining the organisation and establishing capabilities that create winning conditions. Typical operational performance indicators include cost-to-income ratio, customers per full-time employee and new accounts per sales employee.

### Capricorn Group's response: how is this measured and mitigated?

Capricorn Group identified operational excellence as the core component of its competitiveness, which has important implications for the group's management style, corporate culture and performance management system.

Operational excellence relies on Capricorn Group's modern, flexible and efficient core system, and the group's ability to comply with international best practice in terms of efficient operations. The group's existing portfolio review process enables the systemic identification of redundant or underperforming businesses across the portfolio and flags opportunities for cross-business collaboration. Risks related to the management of operational systems are addressed through a well-developed IT governance structure.

Employees

Shareholders

Customers

"We want to be seen as an ethical business first and then as a profitable business – and mindful of communities where we operate."

– Employee

## Enhancing and optimising management and operational systems (continued)

### Capricorn Group's response: how is this measured and mitigated? (continued)

Platform alignment, build consistency and integration remain key priorities across all three countries, for example in point of sale systems, online and mobile banking. Detailed operational indicators are tracked by each bank to measure, for example, turnaround times.

Three key operational indicators are:

- Customers per full-time equivalent (FTE) which tracks the ratio of customers to full-time employees as a way to measure efficiency: the more customers managed per FTE the higher the efficiency in terms of process optimisation, automation and digital self-service.
- Sales FTEs as a percentage of total FTEs measure the proportion of the employee base that are sales employees, as an operationally excellent organisation will have a higher proportion of sales employees compared to back-office and support staff. This is an indication of efficient back-office processes and automation.
- New customers per sales' FTE measure the amount of new customers that one full-time employee acquires. It indicates the efficiency and effectiveness of Capricorn Group's sales and onboarding processes.

Operational excellence further relies on the support of central expertise, such as disaster recovery. A recent initiative by Bank Gaborone used group resources for the preparation, component upgrades and facilitation of the move to the disaster recovery site.

**Related strategic choice**

Effective strategy execution

Building the foundation in Namibia, Botswana and Zambia

Target digital opportunities

| Indicator | Group average |
|---|---|
| Cost-to-income ratio | 60.6% |
| Customers per full-time employees (FTEs) | 240 |
| Sales FTEs as a percentage of total FTEs | 15% |
| New customers per sales FTE | 168 per year |

## Responding to a changing regulatory and operating landscape

Governments in the region drive policy and regulation, which should create conditions for social, political and commercial development, and can have a significant impact on the ability of Capricorn Group to grow and expand.

Regulators in sub-Saharan Africa are aligning themselves with global best practice in building a legislative regime that aims to foster trust and confidence in the sector and between its participants.

Commercial banking institutions, in general, are at the apex of the regulatory environment and are therefore constantly presented with amendments to the local legislative framework and the introduction of new statutes and regulations.

Regulatory focus in the banking sector has been on prudential requirements, anti-money laundering provisions and obligations such as client due diligence, enhanced due diligence, suspicious transaction reporting and the ongoing monitoring of clients and transactions; electronic transactions and cybercrime and consumer protection.

Across the three geographical jurisdictions, core emerging legislation is developing to ensure alignment to these trends in prudential requirements, including anti-money laundering and proliferation standards, electronic transactions and cybercrime and consumer protection.

Keeping abreast of these changes, creating awareness and constantly adapting is achieved through a well-considered and approved Compliance Programme aligned to the Generally Accepted Compliance Principles (GACP) advocated by the Compliance Institute of Southern Africa.

The following Acts were promulgated and/or came into effect in Namibia during the financial year:

- Flexible Land Tenure Act 4 of 2012
- Whistleblower Protection Act 10 of 2017
- BID 10 – Appointment, duties and responsibilities of auditors
- BID 30 – Information Security

Core emerging legislation in Namibia includes:

- BID 26 – Outsourcing
- Electronic Transactions and Cybercrime Bill, 2018
- Financial Services Adjudicator Bill, 2018
- Microlending Bill, 2018
- Financial Institutions and Markets Bill, 2018

The following Acts were promulgated and/or came into effect in Botswana during the financial year:

- Income Tax (Donations) Regulations 2017
- Proceeds and Instruments of Crime Regulations 2017
- Tribal Land Act No. 1 2018

Core emerging legislation in Botswana includes:

- Electronic Communications and Transactions (amendment) Bill 2017
- Competition (amendment) Bill 2017
- Consumer Protection Bill 2017
- Counter-Terrorism (amendment) Bill 2017
- Data Protection Bill 2017
- Companies Re-Registration Bill 2018
- Registration of Business Names Re-Registration Bill 2018
- Companies (amendment) Bill 2018
- Citizenship (amendment) Bill 2018
- Banking (amendment) Bill 2018

## Responding to a changing regulatory and operating landscape (continued)

The following Acts were promulgated and/or came into effect in Zambia during the financial year:

- The Banking and Financial Services Act of 2017
- The Bank of Zambia Anti-Money Laundering and Combating the Finance of Terrorism or Proliferation Directives of 2017
- The Bank of Zambia Corporate Governance Directives
- The National Payment Systems Directives on Electronic Money Issuance
- The Companies Act of 2018

Core emerging legislation in Zambia includes the following:

- The Anti-Terrorism Proliferation Bill of 2018
- The Information and Communications Technology Association of Zambia Bill
- The Credit Reporting Bill No. 6 of 2018
- Zambia Institute of Marketing Act No.3 of 2003
- Draft SI on the Scale of Fees for Registered Valuation Surveyors
- Rules to guide the application of Section 146 to 149 of the Securities Act, 2016

### Capricorn Group's response: how is this measured and mitigated?

Current engagement with regulators and governments is mainly at board and executive leadership levels and includes interaction with departments such as the Ministries of Finance and Industrialisation, Trade and SME Development, Private Enterprise and bank and financial institution regulators.

The group has a solution-based approach to regulatory change that aims to mitigate the risk of increasing cost and complexity, and to manage the trade-offs in capacity allocation to ensure that it maintains and improves the risk management and controls that are suited to the region's financial and regulatory landscape.

The group complies fully with legislation and remains cognisant of its responsibility to maintain operating licences and protect its reputation and shareholder value. This includes comprehensive front-line training, systems development and technical support as well as engagement with the relevant regulators around implementation challenges and opportunities.

Compliance is proactively managed through the Capricorn Group Compliance Framework and the central risk and compliance departments. The group continually develops and manages the business risk and control framework to ensure compliance.

Shareholders

Government and regulators

**Related strategic choice**

Strategic partnerships

Effective strategy execution

| Indicator | Trend |
|---|---|
| No material fines or penalties were imposed on group companies during the financial year. Any findings raised in terms of regulatory inspections are closely monitored via the risk issue log until resolution, with regular formal feedback being given to the applicable regulator. | → |

## How we create value through the group's business model and the six capitals

Capricorn Group's business model aims to deliver on the group's strategic purpose and create value for stakeholders over the short, medium and long term. It operates as a system which transforms inputs through a range of business activities into outputs and outcomes.

Capricorn Group exists to create opportunities for stakeholders and will continue to do this by responding appropriately to their needs. The business model summary on page 62 sets out the various elements involved.

## Financial and manufactured capital

Capricorn Group's banking, asset management and insurance activities are primarily shaped around the availability, use and creation of financial capital. Financial capital input takes the form of share capital and reserves and can be measured by the group's capital adequacy ratio (see the key measurements on page 17).

Bank Windhoek, for instance, made a strategic shift and renewed its focus on deposits as a source of financial capital. Whereas the bank traditionally had an asset-led approach, a challenging external environment, particularly regarding limited market liquidity, raised the importance of deposits and transactional accounts to increase the availability of financial capital and earnings capacity.

A key competency for the group is the ability to price for risk, which relies on its inherently strong institutional and market knowledge. This is supported by a decentralised decision-making model that allows branches at all three banks to manage loans and credit based on their understanding of their market and long-term relationships. A strong risk management culture, entrenched governance structures and a responsible investment philosophy underpin the management of financial capital.

Since taking on a 26% share in the group in 2017, the GIPF has enabled the creation of a capital buffer to mitigate financial risk and to provide sustainable and stable funding.

Physical expansion predominantly takes the form of new branches and ATM facilities. These two channels are also the main forms of manufactured capital used and created by the group. The focus is on repurposing branches as the group prioritises investment in digital infrastructure rather than the opening of new branches. The group's recent investment in data facilities and networks, through the acquisition in Nimbus, thus creates further manufactured capital with long-term value creation potential.

Through mobile banking, the group is reducing reliance on manufactured capital; thus, increasingly, financial capital flow can be distributed and managed through data networks and personal devices. Nonetheless, call centres, branches and offices are likely to remain core examples of manufactured capital.

## Human, intellectual, social and relationship capital

The group's brand purpose statement emphasises its role as a connector of positive change. This role requires the use and application of human, intellectual, and social and relationship capital. Stakeholder engagement is at the core of these three capitals, as it increases aspects of all three through feedback, relationships, innovation, service improvements and higher levels of stakeholder satisfaction. It enables Capricorn Group to address any issues that prevent value creation and increases systemic awareness and responsiveness. Read more about stakeholders on page 42.

The Capricorn Way is a key enabler of human, intellectual, social and relationship capital as a way to unlock potential. It also defines the culture and set of behaviours that the group aspires to embed in all its engagements. The launch of the Connector Programme was a significant step towards a cultural shift in the group, aligned to The Capricorn Way.

The group relies on the appropriate skills to deliver on the four strategic choices and on its brand promise. The creation of a pool of skills between the different entities, supported by a resource centre in Johannesburg in South Africa, is an example of how sustainable human capital is managed. Targeted training, investment in human capital and the conception of capability models deliver operational excellence.

The group enhances its social and relationship capital through its corporate social investment projects. Read more about these projects in the BSEC report on page 101.

## Natural capital

Capricorn Group is a relatively modest consumer of natural resources in its business activities. Direct impacts are measured in terms of water and electricity use at the group's three main buildings in Windhoek, and the launch of a carbon footprint initiative.

The group's more significant exposure to natural capital is indirect, through loans and insurance for entities that rely on natural resources and are at risk of climate change impacts. This includes industries such as mining, agriculture, fishing and construction.

At Bank Windhoek, the future availability of natural capital is primarily managed by the best practice ESMS, which is used as a guide to credit allocation and lending activities. The future availability of natural capital could also have a significant impact on the future availability of financial capital.

# Business model: Connector of positive change

As a connector of positive change

5 yrs
FIVE YEARS LISTED ON NAMIBIAN STOCK EXCHANGE

Capricorn Group

works according to

## THE CAPRICORN WAY

- Our purpose
- Our beliefs
- Our values
- Our norms
- Our behaviours
- Our workplace

within a context shaped by our material matters

1. Meeting individual customer needs and expectations
2. Fintech, insurtech and evolving digital assets
3. Demands for specialist skills driving focused development, training and diversity initiatives
4. Liquidity, credit risk and regional economic growth prospects
5. Mitigating financial crime, corruption and fraud
6. Environmental, social and governance challenges
7. Enhancing and optimising management and operational systems
8. Responding to a changing regulatory and operating landscape

and is guided by

as a way to create competitive advantage through

## OUR CORE CONNECTOR COMPETENCIES

- Enterprise architecture
- Technology
- Relationships
- Institutional and market knowledge

which create future risks and opportunities. Read more in the outlook statement in the leadership report, our strategic landscape section and the risk and compliance report.

## POSITIVE CHANGE OUTCOMES FOR ALL STAKEHOLDERS

Capricorn Group creates value by being a trusted connector of people, money and opportunities, allowing them to trade, preserve and grow their assets securely over the short and long term. Read more about the value the Group created since listing on the NSX on page 4.

- **N$23.6m** invested in CSR
- **N$959.2m** paid as remuneration to employees
- **N$484.6m** paid as taxes to governments
- **N$516.9m** paid to suppliers for products and services

Find examples of Capricorn Group acting as a connector of positive change in the examples listed on page 6.

contributing to

while reducing by-products and waste such as waiting time, losses and errors through

**FOCUS ON OPERATIONAL EXCELLENCE**

## FOUR STRATEGIC CHOICES

1. Focus on building and extending the group's foundation in Namibia, Botswana and Zambia.
2. Develop all-round capabilities in effective strategy execution that improves customer service.
3. Explore strategic partnerships in Namibia, Botswana and Zambia.
4. Explore technological/borderless/cyber opportunities that will define banking in the next 10 – 15 years.

## Social and relationship capital

Government and regulators

Media and analysts

Communities

Customers

Suppliers

Employees

Shareholders

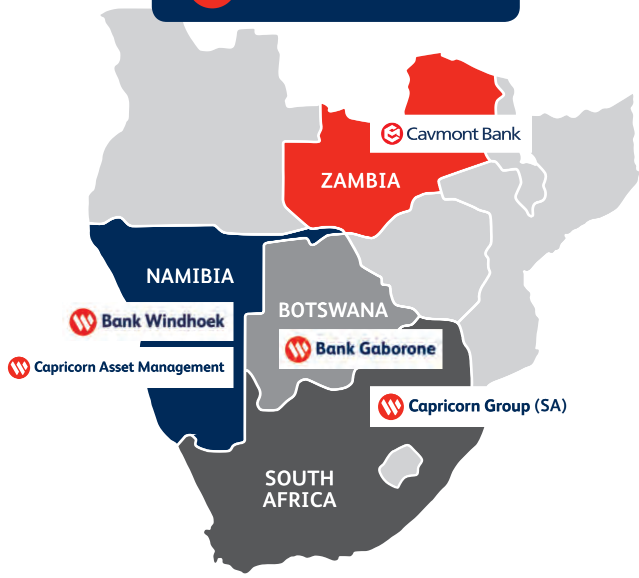
that determine our requirements for

## INPUTS

- Financial capital
- Manufactured capital
- Human capital
- Intellectual capital
- Natural capital

which are applied and transformed by our regional operations

## Capricorn Group




A REGIONAL FINANCIAL SERVICES GROUP

who offer a range of products and services

## OUTPUTS: PRODUCTS AND SERVICES

| | |
|---|---|
| INVESTMENT AND ASSET MANAGEMENT | BUSINESS AND CORPORATE BANKING |
| RETAIL BANKING SERVICES | PROPERTY DEVELOPMENT |
| WEALTH MANAGEMENT AND PRIVATE BANKING | FOREX AND TRADE FINANCE |
| SPECIALIST ASSET FINANCE | BANKASSURANCE |

through a range of channels

ATM

BRANCH

APP

ONLINE

EVENTS

INDIVIDUAL

to individual and commercial clients, public and private institutions

## Business model trade-offs

In an interconnected, dynamic operating environment, Capricorn Group makes strategic choices that result in trade-offs between different stakeholders' interests over varying periods of time. Where these choices are made deliberately, value destruction can be mitigated, and sustainability ensured.

The choice between developing local skills and establishing a resource centre in South Africa is an example of a trade-off where the group's immediate needs take precedence over the longer-term investment in local skills development.

The group finds itself in the unique but challenging situation as a 100% locally owned entity that is expected to recruit locally while also meeting customer and regulatory expectations to deliver value.

The choice to access skills outside of Namibia, for example, was necessitated by the shortage of information technology and risk specialist skills in the country. This was compounded by trade restraints in the region that create barriers to people movement between the countries. These skills are critical to the group's capacity to execute its strategy, manage risk and ensure sustainable growth. The resource centre was established in South Africa to provide central support and facilitate easier travel between the banks. To mitigate the risk of perpetuating the skills shortages in the three countries, the group is exploring several long-term skills development initiatives.

## Business model outcomes

Capricorn Group creates a range of outcomes for its stakeholders. These are briefly described below:

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

As a creator of skills, Capricorn Group provides stable employment and development opportunities for Namibian, Botswanan and Zambian people. As employees, they are able to advance their careers nurtured by a culture focused on building relationships and unlocking potential to drive positive change internally and externally with stakeholders – with rewards and recognition supporting high performance. Read more in the remuneration report on page 79.

Capricorn Group delivers stable, sustainable and attractive returns for shareholders seeking exposure to the financial sector of the NSX.

The group's growth prospects, portfolio spread and solid governance give its providers of capital confidence in its ability to drive positive change, manage risks, meet competitive challenges and maximise new opportunities.

By adhering to high ethical standards, including all relevant legislation, guidelines and standards, Capricorn Group is a committed economic partner to the governments of its three jurisdictions. In this role the group is an enabling force for a stable and accessible regional financial services industry. Capricorn Group also maintains a close relationship with its regulators.

The group aligns its initiatives with governmental and regulatory imperatives and actively promotes initiatives that drive positive change, such as the Harambee Prosperity Plan, to guarantee a flourishing social and economic environment for all its stakeholders.

Through its social investments and sponsorship activities, and its ability to leverage interpersonal connections effectively, Capricorn Group has been creating value for communities through partnerships for more than 20 years. Beneficiaries and members of communities typically gain access to educational, entrepreneurial and health improvement opportunities that allow them to be more economically active. Capricorn Group delivers impact through collaboration and alignment of cooperative initiatives to governments' social development agendas.

## Financial value-added statement

Capricorn Group uses, creates and distributes financial capital through its business activities, to the benefit of a range of stakeholders.

# Economic value added

for the year ended 30 June 2018

| | 2018 N$'000 | 2017 N$'000 |
|---|---|---|
| *Direct economic value generated* | | |
| Interest and similar income | 4,244,215 | 3,626,477 |
| Impairment charges on loans and advances | (80,840) | (57,998) |
| Non-interest income | 1,225,168 | 998,185 |
| Share of joint arrangements and associates results | 84,384 | 79,194 |
| Attributable to non-controlling interest | (11,879) | (8,192) |
| | 5,461,048 | 4,637,666 |
| *Economic value distributed* | | |
| ***To suppliers*** | 516,915 | 447,515 |
| ***To employees*** | 959,206 | 722,986 |
| Dividends to shareholders | 346,744 | 329,516 |
| Preference dividends | 39,374 | 1,743 |
| Interest and similar expenses | 2,425,318 | 1,976,980 |
| ***To providers of funds*** | 2,811,436 | 2,308,239 |
| Normal tax | 325,659 | 349,028 |
| Value added and other indirect taxes | 135,019 | 123,401 |
| Skills development levies | 7,282 | 5,674 |
| Stamp duty | 16,616 | 14,156 |
| ***To government*** | 484,576 | 492,259 |
| ***To the community*** | 23,608 | 6,535 |
| | 4,795,741 | 3,977,534 |
| Economic value retained for expansions and growth | | |
| Retained income | 554,345 | 544,761 |
| Depreciation and amortisation | 97,088 | 72,995 |
| Deferred tax | (7,593) | 7,224 |
| | 643,840 | 624,980 |
| Regulatory reserves | | |
| Credit risk reserve | 21,467 | 35,152 |
| ***Total value distributed and retained*** | 5,461,048 | 4,637,666 |

# 06 CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS

Hellmut Gottlob von Ludwiger (50) – Company secretary,
Dirk Johannes Reyneke (56) – Independent non-executive director,
John Mueneni Shaetonhodi (69) – Non-executive director,
Esi Malaika Schimming-Chase (48) – Independent non-executive director,
Kephas Brian Black (63) – Independent non-executive director,
Daniel Gerhardus Fourie (60) – Lead independent non-executive director,

Matheus Kristof Shikongo (68) – Independent non-executive director,
Johannes Jacobus Swanepoel (58) – Non-executive chairman,
Jacobus Christiaan Brandt (75) – Non-executive director,
Gida Nakazibwe-Sekandi (65) – Independent non-executive director,
Marthinus Johannes Prinsloo (47) – Group managing director

# Board member profiles

## Johannes Jacobus Swanepoel (58)

Non-executive chairman
Chair of the group board nominations committee
Chair of the group board investment committee
Member of the board audit, risk and compliance committee
Member of the group board remuneration committee
Chair of the board executive committee

Appointed to the board in 1999
Qualifications: BCom (Hons) (Accounting), CA(SA), CA(Nam)

After joining Coopers & Lybrand (now PricewaterhouseCoopers) in 1980, Johan qualified as a chartered accountant in 1982. He was elected managing partner of the firm in Namibia in 1989. He was appointed as managing director of Bank Windhoek and a director of Capricorn Group on 1 July 1999. In 2005 he took up the position of the group managing director of CIH. Upon his retirement from this position in 2017 he accepted the role of chairman of the boards of Capricorn Group and Bank Windhoek.

Johan Swanepoel is a director of a number of companies in the Capricorn Group, Capricorn Investment Holdings, Namibia Strategic Investments, Kuiseb Investments (Pty) Ltd, Infocare Healthcare Services (SA) (Pty) Ltd and Infocare International (Pty) Ltd.

## Kephas Brian Black (63)

Independent non-executive director
Chair of the group board HR committee
Member of the group board nominations committee

Appointed to the board in 2007
Qualifications: Executive and Senior management diplomas from the University of Stellenbosch

Brian Black was the chairman of the Hospitality Association of Namibia, NCCI Trade and Investment Advisory Committee, FENATA and PG Bison Namibia. Previous board memberships include the Namibian Employers Federation, the Namibian Tourism Board, Namibia Wildlife Resorts, Swakopmund Hotel & Entertainment Centre and Medicity Private Hospital. Brian was also the general manager of marketing and sales for TransNamib Holdings Ltd, managing director of Cernol Chemicals (Namibia) Pty Ltd and executive director of Swachem Namibia (Pty) Ltd and Spice and Scale World (Pty) Ltd. He was a member of the Labour Advisory Council.

Current board memberships include being the chair of Ekango Salt Refiners (Pty) Ltd, AFS Group Namibia and the Namibian Manufacturers Association. He is also a board member of the Social Security Commission.

## Jacobus Christiaan Brandt (75)

Non-executive director
Member of the group board investment committee
Member of the group board nominations committee

Appointed to the board in 1996
Qualifications: BA LLB

Koos Brandt is a founding member of Bank Windhoek. He was appointed as chairman of the board of Bank Windhoek on 1 April 1982 and was chairman of Capricorn Group since its inception in 1996 until 30 June 2017.
He practised as a commercial lawyer for more than 30 years at Dr Weder, Kruger and Hartmann (now Dr Weder, Kauta & Hoveka).
In 2013 he was appointed to the Presidential Economic Advisory Council of Namibia.

He is a director of a number of companies in the Capricorn Group, Capricorn Investment Holdings, Namibia Strategic Investments, Infocare Healthcare Services (SA) (Pty) Ltd and Infocare International (Pty) Ltd.

## Daniel Gerhardus Fourie (60)

Lead independent non-executive director
Chair of the group board audit, risk and compliance committee
Chair of the group board remuneration committee
Member of the group board HR committee
Member of the group board nominations committee
Member of the group board investment committee

Appointed to the board in 2015
Qualifications: BCom (Hons), CA(SA), CA(Nam)

Gerhard Fourie has 35 years' experience as a chartered accountant. He was a partner with EY (formerly Ernst & Young) for 28 years until his retirement as managing partner of EY Namibia in June 2015. Gerhard completed a postgraduate management development programme of the Business School of the University of Cape Town and an advanced leadership programme at the Gordon Institute of Business Science and is a member of the ICAN Council.

Other board memberships include Bank Windhoek and Namib Bou.

## Marthinus Johannes Prinsloo (47)

Group managing director
Member of the group board HR committee
Member of the group board investment committee
Member of the group board sustainability and ethics committee
Member of the group board IT committee
Member of the board executive committee

Appointed to the board in 2013
Qualifications: BCompt (Hons), CA(SA)

Thinus Prinsloo joined CIH in July 2011 and was appointed as managing director of Capricorn Group from 1 January 2016. Before joining the group, Thinus worked at Absa in South Africa where he held various positions, including the head of integration. Prior to that, he worked as a business strategy consultant at IBM and PricewaterhouseCoopers (PwC). Thinus qualified as a chartered accountant whilst working at PwC in South Africa and in the corporate finance division in the UK. He completed a number of executive programmes at GIBS, the University of Cape Town Business School, and most recently the Oxford Advanced Management and Leadership Programme at Saïd Business School.

He is a director on various boards in the Capricorn Group as well as in the Sanlam Namibia group.

## Dirk Johannes Reyneke (56)

Independent non-executive director
Member of the group board audit, risk and compliance committee
Member of the group board IT committee

Appointed to the board in 2017
Qualifications: BCom, BCompt (Hons), CA(SA), Diploma in Advanced Banking

Dirk Reyneke was a partner at Ernst & Young (now EY) for 14 years, including partner at the Gauteng Financial Services Group and partner at the Gauteng Head of Banking. In 2006 he joined Absa Retail Bank as CFO. Other positions at Absa include Head of Finance and Operations and later Chief Operating Officer for Absa Retail and Business Bank. Since 2012 he has been employed by Telkom Group, where he is now the CFO for Gyro Group, Telkom's property division. Previous positions at Telkom include CFO for Telkom Mobile and Head of integration tasked with the integration of Telkom Enterprise and Business Connexion.

He is also a member of the boards of Dairy Farmers of South Africa, SBV Services and SWIFTNet.

## Esi Malaika Schimming-Chase (48)

Independent non-executive director
Member of the group board sustainability and ethics committee

Appointed to the board in 2013
Qualifications: LLB (Hons) Coventry University, England

Esi Schimming-Chase was admitted as a barrister at law in England and was subsequently appointed legal officer in the office of the Attorney General of Namibia. She was senior manager: investment promotions at the Offshore Development Company (Pty) Ltd, where she promoted foreign investment in export processing zones in Namibia. She completed her articles at Koep & Partners, and was admitted as a legal practitioner of the High Court of Namibia. She is currently a practising advocate of the High Court of Namibia and member of the Society of Advocates of Namibia. She has lectured part time, and acted as a judge of the High Court of Namibia in 2011, 2013 and 2015. In July 2017, Esi was awarded the status of Senior Counsel (SC).

Other board memberships include the Legal Assistance Centre and chair of the Namibia University of Science and Technology Council.

## Gida Nakazibwe-Sekandi (65)

Independent non-executive director
Chair of the group board sustainability committee
Member of the group board IT committee

Appointed to the board in 2004
Qualifications: LLB, Accredited Public Relations Practitioner (APR)

Gida Nakazibwe-Sekandi joined the banking industry in August 2000 when she was appointed as executive officer: marketing and corporate communication at Bank Windhoek. In 2008, she was appointed as executive director of Capricorn Investment Holdings Ltd. Gida is a founder member of PRISA Namibia. She has served in various executive roles including heading as head of industrial relations and communications at Rössing Uranium Mine and head of corporate affairs at Rössing Uranium Ltd, a member of the Rio Tinto Group. She served in the Ministries of Justice in Uganda and Zimbabwe as State Attorney and Public Prosecutor respectively.

Gida is a director of numerous companies in the Capricorn Group, Nam-mic Financial Services Holdings, Capricorn Investment Holdings and Welwitschia Insurance Brokers. She serves as the lead director of Allegrow Fund, a local unlisted private equity fund. She invests her time pro bono in various social institutions, including MSR and Women@Work.

## John Mueneni Shaetonhodi (69)

Non-executive director
Chair of the group board sustainability committee
Member of the group board HR committee

Appointed to the board in 2006
Qualifications: BAdmin, MA, MBA (Maastricht)

John Shaetonhodi's career included political responsibilities, being a Member of Parliament for seven years, Deputy and Acting Minister of Labour, Deputy Minister of Works, Transport and Communications, Founding President of the Mineworkers Union of Namibia, Founding President of the National Union of Namibian Workers as well as holding a number of executive and non-executive directorships. He was the CEO of the public enterprise TransNamib Holdings Ltd from 2001 to 2007.

He is a founding director and current chairman of Nam-mic Financial Services Holdings, the broad-based black economic empowerment partner of Capricorn Group.

## Matheus Kristof Shikongo (68)

Independent non-executive director

Appointed to the board in 2001
Qualifications: Diploma in Personnel Management – Marketing

Matheus Shikongo was elected Mayor of the City of Windhoek in 2000. During his career, he served on a number of boards including the National Theatre of Namibia, the Namibia Broadcasting Corporation, Metropolitan Life Namibia, the Commercial Bank of Namibia, the Namibia Airports Company and Namibia Power Corporation.

In addition to serving on the board of directors of CIH and a number of companies in the Sanlam group, he is a director of Oryx Properties, August 26 Logistics and several other companies.

## Governance and leadership

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

The board and its committees are responsible for establishing effective leadership, ethical practices and ensuring the appropriate application of governance practices and principles contained in the NamCode, the Corporate Governance Code for Namibia. The board believes that, based on the structures, policies and practices established, the group substantially applies the principles contained in the NamCode. Capricorn Group has started assessing and preparing to provide full disclosure on the application of the King IV Report on Corporate Governance for South Africa, 2016 (King IV™) in the next financial year.

The board supports the shift to an outcomes-based approach to governance where the leadership tone is set from the top. The work done in embedding The Capricorn Way signals the emphasis on creating an ethical culture with behaviours based on a common set of values.

The board has been setting the tone in creating an ethical culture through a group risk appetite statement that includes elements specifically related to ethical risk. Operational risk priorities include building an effective risk culture to support dynamic risk management.

Board members and employees adhere to an updated Group Code of Ethics and Conduct Policy while the Procurement Policy was augmented with a Suppliers' Code of Conduct. The BSEC committee has, since its inception, been mandated to recommend policies and guidelines for addressing any ethics issues to the board and escalate any ethics risks to the BARC.

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

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

Key board practices and activities focus on:

- open and rigorous discussion
- active participation
- consensus in decision-making
- independent thinking and alternate views
- reliable and timely information

The board provides oversight and ensures sustainability by approving a clear strategy linked to performance objectives and targets. The operational risk management infrastructure has been enhanced to support the group's strategy, which directs the evolution of the internal risk and control frameworks based on anticipated future operating dynamics. To achieve good performance as an outcome, the board evaluates its own performance, including the board committees, and ensures that remuneration throughout the group is linked to the achievement of performance targets.

Effective control is embedded in the governance structures in the group. The board follows a structured approach to meetings supported by a timely flow of documents to ensure that the oversight responsibilities of entity boards as well as the group board and its board committees are carried out effectively.

The board believes that the group earns legitimacy through consistent performance over time, a reputation for compliance, customer service and by acting as a connector or positive change.

## Governance events for 2018

1. Johan Swanepoel, previously vice-chairman of the board became board chairman on 1 July 2018 in line with long-term succession planning.
2. Koos Brandt, previously chairman of the board, remains a non-executive director.
3. Frans du Toit, previously lead independent director, retired as a director of Capricorn Group at the AGM held on 31 October 2017. He continues to serve as a director on the board of Bank Windhoek Limited and serves on the group board remuneration committee.
4. Gerhard Fourie became lead independent director on 31 October 2017.

The board is satisfied that it has fulfilled its responsibilities in accordance with its charter for the year.

## Board of directors

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

The board, as constituted by the Companies Act, is governed by the board charter. The purpose of this charter is to regulate how business is to be conducted by the board in accordance with the principles of sound corporate governance. The charter also sets out the specific responsibilities to be discharged by the board members collectively and the Group managing director and Group chairman in their respective capacities.

## Role of the board

An important role of the board is to define the purpose of the group (which is its strategic intent and objectives as a business enterprise) and its values, which constitute its organisational behaviour and the norms to achieve its purpose. Both the purpose and the values are considered to be clear, concise and achievable. The group's strategy is considered, evaluated and agreed upon annually, prior to the approval of the annual budget. Implementation is monitored at the board and executive meetings quarterly. Read more about the purpose, strategy and values from page 62.

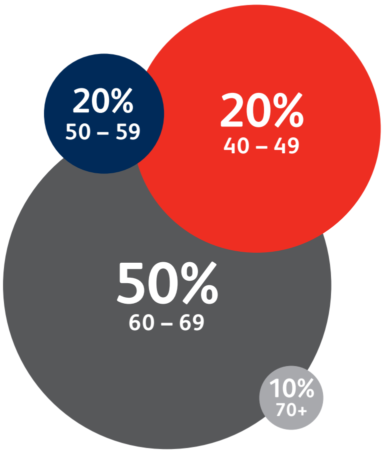
The board also ensures that procedures and practices are in place that protect the group's assets and reputation. Further responsibilities of the board include the establishment, review and monitoring of strategic objectives, approval of major acquisitions, disposals and capital expenditure and overseeing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

A schedule of matters reserved for the board's decision details key aspects of the group's affairs that the board does not delegate, including the approval of business plans and budgets, material expenditure and alterations to share capital. This framework provides clarity on roles and ensures the effective exercise of authority and responsibilities.

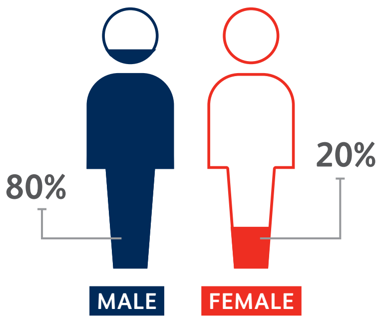
## Board leadership and composition

Capricorn Group has a unitary board, consisting of an appropriate mix of executive, non-executive and independent directors. The size of the board is dictated by the company's articles of association that require a minimum of five directors. Currently, 13 members constitute the board at group level, with two executive directors, five non-executive and six independent non-executive directors.

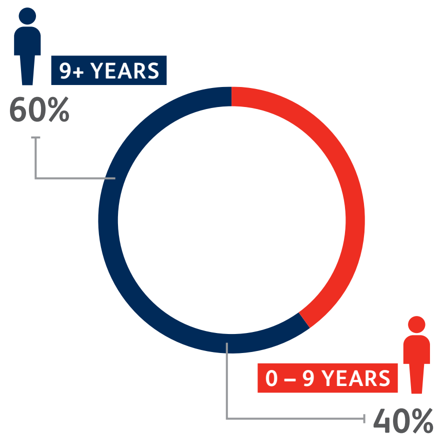
The nominations committee, which includes the lead independent director, assessed the independence of the non-executive directors classified as independent and confirmed their continued classification as independent.



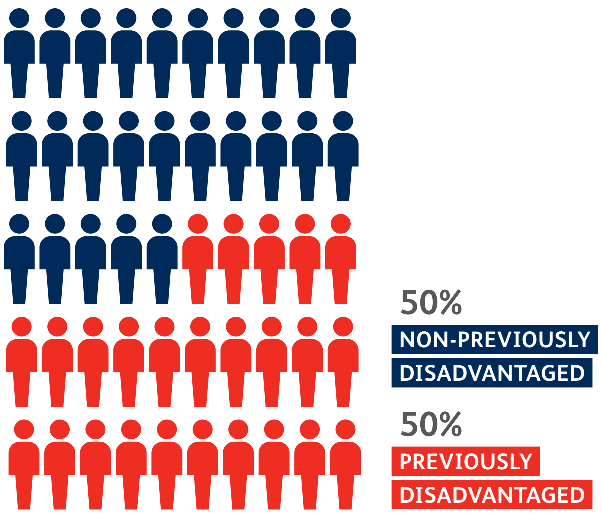

Board member diversity: age



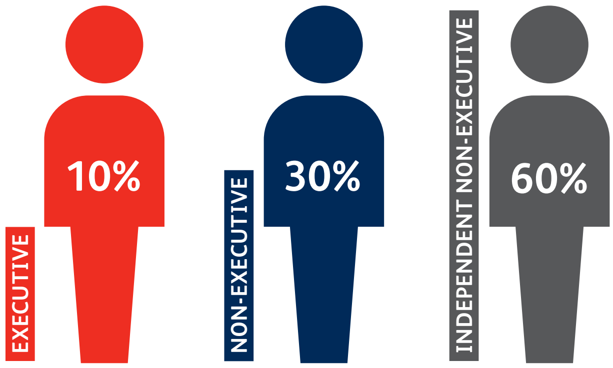

Board member diversity: gender




Board member diversity: tenure




Board member diversity: race




Board member diversity: status

The board is satisfied that its composition reflects the appropriate mix of knowledge, skills, experience, diversity and independence. Read more about the board members in their profiles from page 68.

## Board appointments, induction and training

Procedures for appointments to the board are formal and transparent. Nominations for appointment as members of the board are recommended by the group board nominations committee (Nomco), which is chaired by the board chairman. The lead independent non-executive director is a member of the committee, and all members are non-executive.

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

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

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

This year, the board received a three-hour presentation on the impact of IFRS 9 and a session on building a risk culture.

## Board evaluation

The nominations committee appointed the Institute of Directors of Southern Africa (IoD) to do an external evaluation of the boards, committees, directors and company secretaries of Capricorn Group and the three banks. Other companies in the Group participated in a process of self-evaluation.

The appraisal included, inter alia, a review of the composition of the boards and committees, roles and responsibilities, relationships with management and other stakeholders, and board meetings. Following a review of the governance documentation, the IoD tailored appraisal questionnaires that were completed by the directors and company secretaries, after which the IoD interviewed them individually. The reports prepared by the IoD indicated a satisfactory outcome of the appraisal. The board is satisfied that the evaluation process is improving the board's performance and effectiveness.

## Chairman, lead director and managing director

The board chairman, Johan Swanepoel, is not considered to be an independent non-executive director. However, the directors are of the view that his experience, leadership skills and intimate knowledge of the business and the economy equip him to best lead the board and the group.

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

The board has appointed Gerhard Fourie as lead independent director. His role and responsibilities are set out in the board charter, and include serving as a nexus between executive and non-executive directors where a more stringent observation of independence is required on particular matters requiring board decision.

The Group managing director is appointed by the board and his succession is attended to by the nominations committee.

## Access to independent advice

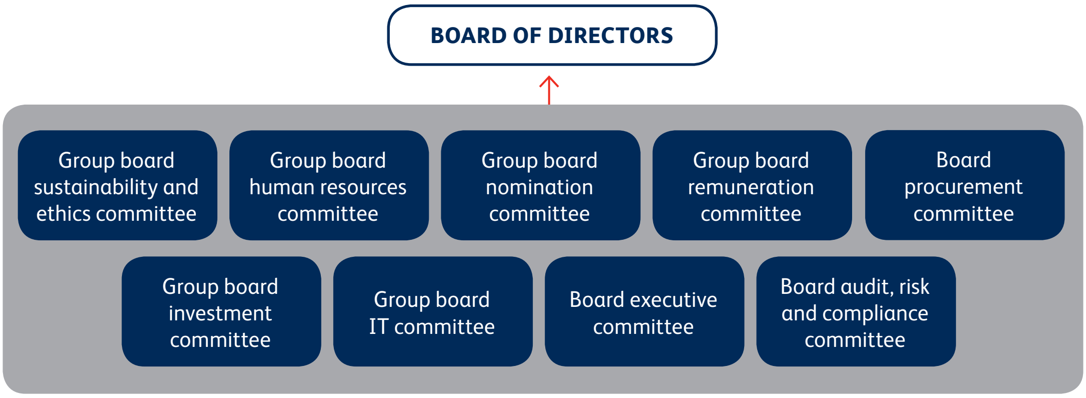
The company secretary is available to provide assistance and information on governance and corporate administration to the directors as appropriate. The directors may also seek advice on such matters, or on other business-related matters, directly from independent professional advisors should they so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

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

The board believes that these arrangements are effective for the optimal functioning of the board.

## Board committees

The board as a whole remains responsible for the operations of the group. To assist in discharging its responsibilities, it delegates certain functions to committees established by the board. All committees are properly constituted, chaired by a non-executive director and act within agreed, written terms of reference that meet best practice standards and have been authorised by the board.




### Board executive committee

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

- support of Group managing director
- governance and business ethics
- oversight and monitoring of business activities
- considering and, where appropriate, approving any significant outsourcing or appointment of key advisors or other third parties
- diligently executing and performing all duties, tasks and responsibilities delegated to the committee by the board
- considering instances of significant litigation by or against the group
- considering significant regulatory matters and reports by regulators of the group

The committee is satisfied that it fulfilled its responsibilities in accordance with its terms of reference for the year.

### Board audit, risk and compliance committee (BARC)

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

- financial control, accounting systems and reporting including management accounts, external reporting (interim results and integrated report), budgets, dividends and the capital plan
- combined assurance
- review of the finance function
- internal audit and internal control
- risk management, including risk appetite and IT risk, as referred by the IT committee
- compliance function
- external audit
- non-trading losses
- asset and liability committee (ALCO)

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

The committee is satisfied that it fulfilled its responsibilities in accordance with its terms of reference for the year.

## Group board HR committee

The committee is responsible for the following key matters:

- personnel policies
- appointment, benefits and remuneration of management below executive level
- remuneration and benefits of non-management
- retirement fund scheme
- medical aid and group life benefits
- performance management
- employment equity
- environmental health and safety

The committee is satisfied that it fulfilled its responsibilities in accordance with its terms of reference for the year.

## Group board remuneration committee

The committee is responsible for the following key matters:

- remuneration framework
- remuneration policy
- remuneration and fees for services as directors
- talent management at executive level
- remuneration of executive positions
- incentive schemes

Read more about the activities of the committee in the remuneration report on page 78.

The committee is satisfied that it fulfilled its responsibilities in accordance with its terms of reference for the year.

## Group board nomination committee

The committee is responsible for the following key matters:

- director nominations and related matters
- director performance
- director succession planning

The committee is satisfied that it fulfilled its responsibilities in accordance with its terms of reference for the year.

## Group board investment committee

The committee is responsible for the following key matters:

- investment evaluations, approvals and recommendations of all prospective investments and disinvestments above a certain value
- monitoring of investments
- measure and oversee equity investment portfolio
- review investment strategies

The committee is satisfied that it fulfilled its responsibilities in accordance with its terms of reference for the year.

## Group board sustainability and ethics committee

The committee is responsible for the following key matters:

- group sustainability strategy and philosophy, good corporate citizenship and ethics
- monitoring social and economic development activities
- monitoring environment, health and public safety activities
- monitoring consumer relationships and public relations
- monitoring compliance with human rights conventions

The committee is satisfied that it fulfilled its responsibilities in accordance with its terms of reference for the year.

## Group board IT committee

The committee is chaired by Prof André Watkins, an independent external IT specialist. The committee is responsible for the following key matters:

- group IT strategy
- group IT policy
- operational policy guidelines
- group IT reference architecture
- group application portfolio
- group IT organisational and governance structures
- IT risk management
- strategic projects
- significant outsourcing
- IT capital spend
- adequacy of IT resources

The committee is satisfied that it fulfilled its responsibilities in accordance with its terms of reference for the year.

## Board procurement committee

The committee is responsible for:

- the procurement of high-value and high-risk goods and services
- indefinite delivery contracts
- assessment and approval of quotations received

The committee is satisfied that it fulfilled its responsibilities in accordance with its terms of reference for the year.

## Meeting attendance

The board's structured approach to meetings facilitates the timely flow of documents and ensures that the oversight responsibilities of entity boards, as well as the group board and its board committees, are carried out effectively.

Each board committee has an executive lead to coordinate meetings and meeting documentation. The board meets a minimum of four times a year, with board committee meetings normally held two weeks prior to board meetings.

Feedback reports from the committees to the board include key matters discussed, key decisions taken and matters referred to the board.

The board audit and risk committee (BARC) in particular, has an oversight responsibility on behalf of the group in respect of key audit, financial and risk matters dealt with at entity BARCs, board audit and board risk committees. To assist the group BARC to discharge this responsibility, entity BARC, board audit committee (BAC) and board risk and compliance committee (BRC) chairmen submit letters of representation to the group BARC chairman. The Group managing director also attends all entity audit and risk committee meetings.

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

| Director | Category | Board of directors | Board executive committee | Board audit, risk and compliance committee | Group board HR committee | Group board remuneration committee | Group board nominations committee | Group board investment committee | Group board sustainability and ethics committee | Group board IT committee | Board procurement committee |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Meetings held** | **9** | **8** | **6** | **4** | **5** | **6** | **9** | **3** | **6** | **1** |
| J J Swanepoel | Non-executive chairman | $9^{ch}$ | $8^{ch}$ | 6 | | 5 | $6^{ch}$ | $9^{ch}$ | | | $1^{ch}$ |
| K B Black | Independent non-executive | 9 | | | $4^{ch}$ | | 6 | | | | |
| J C Brandt | Non-executive | 7 | | | | 2 | 6 | 2 | | | |
| D G Fourie | Independent non-executive | 9 | | $6^{ch}$ | 4 | $5^{ch}$ | 6 | 9 | | | |
| M J Prinsloo | Group managing director | 7 | 8 | | 4 | | | 8 | 3 | 6 | 1 |
| D J Reyneke | Independent non-executive | 9 | | 6 | | | | | | 3 | |
| E M Schimming-Chase | Independent non-executive | 5 | | | | | | | 3 | | |
| G Nakazibwe-Sekandi | Independent non-executive | 9 | | | | | | | $3^{ch}$ | 6 | |
| J M Shaetonhodi | Non-executive | 8 | | | 2 | | | | | | |
| M K Shikongo | Independent non-executive | 9 | | | | | | | | | |

*$^{ch}$ = chairman*

## Systems of internal control

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

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

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

The group assesses its internal control systems on a continuous basis in relation to effective internal control over financial reporting.

Based on its assessment, the group believes that as at 30 June 2018, its systems of internal control over financial reporting and safeguarding of assets against unauthorised acquisitions, use or disposition were adequate.

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

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

EY act as co-source partner to GIAS, supporting the head, providing technical support and resource capability, and reporting to BARC.

## External auditor

The BARC approved the external auditor's terms of engagement, scope of work, as well as the 2017 annual audit strategy and agreed on the applicable levels of materiality. Based on written reports submitted, the committee reviewed, with the external auditor, the findings of their work and confirmed that all significant matters had been satisfactorily resolved.

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

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

| | |
|---|---|
| Technical training | **N$432,268** |
| Agreed upon procedures | **N$131,300** |
| Attending committee meetings | **N$121,775** |
| Other | **N$208,130** |

It is the external auditor's responsibility to report on whether the financial statements are fairly presented in all material respects in accordance with the applicable frameworks as adopted by the group, and their audit opinion is included in the consolidated annual financial statements on page 111.

# 07 REMUNERATION REPORT

## Introduction

The remuneration report sets out the Capricorn Group remuneration philosophy and policy (the policy) and its implementation during the 2018 financial year. This has been consistently applied in all entities and markets, except Zambia due to the significantly different market remuneration structure.

We continue to ensure that our remuneration practices and policies adhere to global best practice and align executive interest strongly to those of our shareholders.

PwC, whom the board remuneration committee (Remco) considers to be independent and objective, annually reviews and advises Capricorn Group on remuneration. Particular attention was paid to the setting of the performance conditions for the long-term incentives and, consistent with the previous year, we have taken the decision to disclose the performance conditions in this report. We are confident that the targets which we have set for our performance conditions will stretch management, requiring strong company performance to unlock rewards for participants.

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

## Governance of remuneration

Remuneration is governed by the Remco. Executive directors attend committee meetings by invitation but are requested to recuse themselves when matters are discussed that concern them. Ms A Coertzen acts as secretary to the committee.

The committee confirms that it has discharged the functions and complied with its terms of reference for the year ended 30 June 2018.

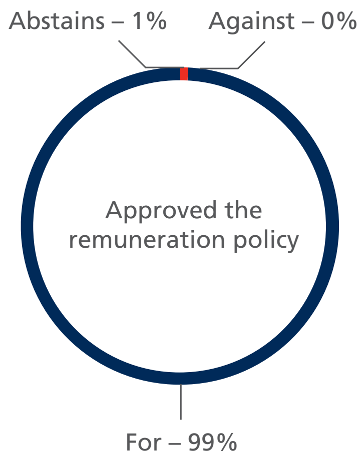
The key activities and recommendations of the committee with regard to remuneration during 2018 included the:

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

## Non-binding advisory vote

At the annual general meeting (AGM) on 31 October 2017, shareholders had the opportunity to cast a non-binding advisory vote on the remuneration policy and the remuneration of the non-executive directors for the financial year ending 30 June 2018.

The voting results were:





From the voting results, it is clear that there is support for the policy. Accordingly, there were no changes made to the remuneration policy. The actual implementation of the remuneration policy for the year under review is reflected in the second section, allowing shareholders to observe the manner in which the group's stated policies translate into actual outcomes for senior management and executives.

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

## Part one: remuneration philosophy and policy

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

- Total rewards mindset – Reward is viewed in a holistic manner comprising a range of monetary (fixed and variable) and non-monetary components.
- Performance differentiation – There is strong differentiation based on performance, particularly for senior, specialist and leadership roles where line of sight to strategic choices are evident.
- Manager discretion – Management discretion is central to Capricorn Group's remuneration philosophy and is based on the requirement that reward must always be based on merit.
- Variable pay component – The variable pay component of total reward increases with seniority (organisational level), as the ability to impact business results increases. This is reflected in the quantum of the opportunities offered by the short- and long-term incentives for more senior levels compared to junior employees.
- Performance aligned with strategy – Performance is the cornerstone of reward practices, and there is clear differentiation between performers and non-performers. The reward consequences for individual employees are, as far as possible, linked to and influenced by the interests of the shareholders, the performance of the company as a whole and the individual employee contribution.
- Risk containment – Reward plans are structured to mitigate against excessive risk-taking.
- Consistency – The reward philosophy strives to be both consistent and transparent. Benchmarking is performed annually using consistent and recognised methodologies. The differential market value of various skill groups and roles is reflected in pay practices.
- Attraction and retention – The focus is on competitive remuneration practices that attract, engage and retain talent to deliver on the business strategy.

Capricorn Group did an extensive review during the September 2017 increase cycle to address any potential gaps between gender and race, as well as the complexity of work. However, we will be doing more work on these issues going forward.

## Elements of pay

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

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

## Short-term incentives (STI)

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

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

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

The remuneration committee approves the individual performance scores for the executive management teams of the different entities.

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

Entities acquired during a financial year are gradually phased in to ensure alignment, but no disruption, to their operational success.

## Long-term incentives (LTI)

### Share appreciation rights (SAR) plan

| Terms | Detail |
|---|---|
| Purpose | To attract, retain and reward selected employees who are able to contribute to the trade of the group and to stimulate the personal involvement of these employees, encouraging their continued service. The SAR serves as a leveraged incentive to employees to promote and align the interests of employees with the shareholders of the company. |
| Operation | Participants receive conditional SAR which vest after three years, subject to the satisfaction of the performance condition, and continued employment of the participant. After vesting, the SAR may be exercised up to five years after the award date. |
| Participants | Executive directors, executive managers and selected members of senior and middle management. |
| Performance period | Three years. |
| Plan limits | An aggregate limit applies between the SAR, the conditional share plan (CSP) and share purchase scheme, being 7.5 % of the issued shares of the company. An individual participant may not receive awards in excess of 10 % of the overall company limit at any one time. |
| Performance conditions | The performance condition applicable to all awards is achievement of budgeted cumulative profit after tax (PAT) and return on equity (ROE) over the performance period. The budget, in turn, reflects the expected outcome of the strategic plans and actions. |

### Conditional share plan (CSP)

| Terms | Detail |
|---|---|
| Purpose | To attract, retain and reward selected employees who are able to contribute to the trade of the group and to stimulate the personal involvement of these employees, encouraging their continued service. Under the CSP, participants receive conditional shares that vest after three years, subject to the satisfaction of the performance conditions over the performance period. |
| Operation | In certain cases, where a retention risk exists, conditional shares that vest after three years and are subject to continued employment of the participant by the group but are not subject to performance conditions, may be awarded. |
| Participants | Executive directors, executive managers and selected members of senior and middle management. |
| Performance period | Three years. |
| Plan limits | An aggregate limit applies between the SAR plan and the CSP and share purchase scheme, being 7.5 % of the issued shares of the company. An individual participant may not receive awards in excess of 10 % of overall company limit at any one time. |
| Performance conditions | The performance condition applicable to the performance-based awards is achievement of budgeted cumulative PAT and ROE over the performance period. The budget, in turn, reflects the expected outcome of the strategic plans and actions. |

## Non-executive directors' fees

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

NED fees reflect the directors' roles and membership of the board and its committees. The NED fees have been benchmarked against the average of the median and upper quartile of medium cap JSE listed financial services companies.

The resolution relating to non-executive director fees for the 2018 financial year can be found on page 254 of the notice of the AGM.

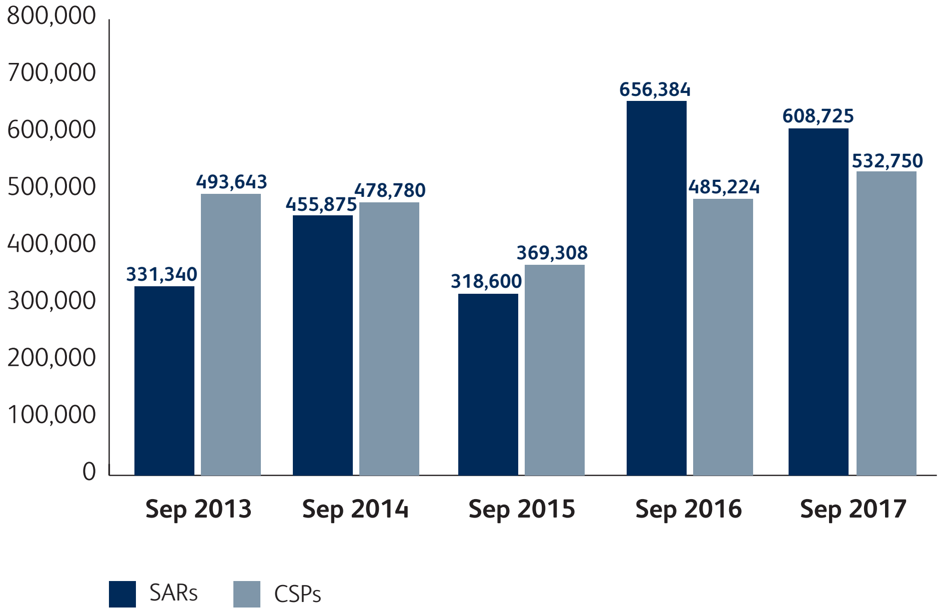
# Part two: remuneration paid

## Increases to total guaranteed pay (group remuneration policy)

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

- employee's performance review
- formal salary survey conducted to determine local and regional pay practices
- adjustment of salary scales to reflect any market movement

## Number of SARs and CSPs awarded



## Number of shares acquired under the share purchase scheme

The number of shares acquired by employees in the group's share purchase scheme in September 2017 was 1,137,175 (September 2016: 1,474,423).

## Dividends paid under the share benefit scheme

Staff members employed on non-managerial job levels below supervisory level are beneficiaries of the Capricorn Group Employee Share Benefit Trust that has distributed dividends earned on the shares held by the trust every year since establishment of the trust in 2005.

Dividends to the value of N$2,275,200 were paid to 430 employees in September 2017 (September 2016: N$2,249,100 to 520 employees).

## Compensation paid to key management

| | Group | | Company | |
|---|---|---|---|---|
| **Executive management team** | **2018 N$'000** | **2017 N$'000** | **2018 N$'000** | **2017 N$'000** |
| Salaries | **37,692** | 34,265 | **5,315** | 4,958 |
| Short-term incentives | **19,191** | 25,328 | **3,325** | 4,638 |
| Long-term incentives | **4,410** | 2,978 | **1,125** | 1,050 |
| Contribution to defined contribution medical schemes | **1,525** | 1,372 | **228** | 251 |
| Contribution to defined contribution pension schemes | **2,629** | 2,341 | **391** | 692 |
| Share-based payment charges | **5,658** | 3,348 | **1,673** | 564 |
| Other allowances | **11,901** | 7,596 | **3,701** | 1,424 |
| | **83,006** | 77,228 | **15,758** | 13,577 |

### Executive directors' emoluments

| | Salary N$'000 | Short-term incentive N$'000 | Pension and medical contributions N$'000 | Other allowances and fringe benefits N$'000 | Total N$'000 |
|---|---|---|---|---|---|
| **30 June 2018** | | | | | |
| **Executive directors** | | | | | |
| Prinsloo, M J | **1,774** | **3,522** | **180** | **900** | **6,376** |
| | **1,774** | **3,522** | **180** | **900** | **6,376** |
| **30 June 2017** | | | | | |
| **Executive directors** | | | | | |
| Prinsloo, M J | 1,658 | 2,548 | 221 | 894 | 5,321 |
| | 1,658 | 2,548 | 221 | 894 | 5,321 |

*The executive directors did not receive any other fees for services as directors or any emoluments other than that disclosed.*

## Non-executive director fees

| | Directors' fees | | Total |
|---|---|---|---|
| | Paid by company N$'000 | Paid by subsidiaries N$'000 | N$'000 |
| **30 June 2018** | | | |
| **Non-executive directors** | | | |
| Swanepoel, J J (Group chairman) | **1,900** | **2,291** | **4,191** |
| Black, K B | **359** | **234** | **593** |
| Brandt, J C | **229** | **444** | **673** |
| Fourie, D G | **622** | **930** | **1,552** |
| Nakazibwe-Sekandi, G | **439** | **201** | **640** |
| Reyneke, D J | **357** | **–** | **357** |
| Schimming-Chase, E M | **224** | **–** | **224** |
| Shaetonhodi, J M | **253** | **–** | **253** |
| Shikongo, M K | **223** | **–** | **223** |
| **Total** | **4,606** | **4,100** | **8,706** |
| **30 June 2017** | | | |
| **Non-executive directors** | | | |
| Brandt, J C (Chairman) | 1,008 | 1,044 | 2,052 |
| Swanepoel, J J (Vice-chairman) | 401 | 935 | 1,336 |
| Black, K B | 256 | 145 | 401 |
| Du Toit, F J | 487 | 365 | 852 |
| Fourie, D G | 511 | 594 | 1,105 |
| Nakazibwe-Sekandi, G | 241 | 186 | 427 |
| Schimming-Chase, E M | 169 | – | 169 |
| Shaetonhodi, J M | 161 | – | 161 |
| Shikongo, M K | 161 | 186 | 347 |
| **Total** | 3,395 | 3,455 | 6,850 |

*Directors' fees consist of a quarterly retainer and a fee for attendance of meetings. No fees relating to other services (e.g. commission) have been paid during the 2018 and 2017 financial years.*

The Remco is satisfied that the remuneration policy was applied during the year with no deviations.

**Gerhard Fourie**
*Chairman of the group board remuneration committee*

# 08 RISK AND COMPLIANCE REPORT

## Enterprise Risk Management supports the strategic objectives of the group

The Enterprise Risk Management (ERM) function proactively identifies and acts upon risks that impact positively or negatively on the group in a manner that creates sustainable value for our stakeholders. The ERM function is aligned to the strategic choices and supports the outcomes in the development and execution of its operating model:

| Strategic choice | Implication of the strategic choice for ERM |
|---|---|
| Focus on building and extending the group's foundation in Namibia, Botswana and Zambia | ERM supports this objective through the use of financial analytics, scenario testing, merger and acquisition risk assessment and a forward-looking approach in research and management of information. |
| Develop all-round capabilities in effective strategy execution that improves customer service | ERM supports this objective by fostering efficiencies and lean and minimal but safe control frameworks built into the business process, analytics and management information. |
| Explore strategic partnerships in Namibia, Botswana and Zambia | ERM supports this objective through risk assessment of new ventures, vigilance of cyber risk and measures to address it, and development of new skill sets, while maintaining awareness of fast-changing business operations and the need to achieve scale quickly and easily. |
| Explore technological/borderless/cyber opportunities that will define banking in the next 10 – 15 years | ERM recognises that to meet this objective it is necessary to be cognisant of cyber risk, new regulators and legal requirements. Quick response to threats and sharp sensing mechanisms are required. The increased use of technology such as the GRC system will allow for better risk outcomes through enterprise-wide data gathering, analysis and insight. |

## Risk management is maturing from an established model to a dynamic model

The strategic objectives of the group are supported by a risk management framework that is becoming dynamic as it matures. This stage of maturity is characterised by a risk function that can anticipate changes in the environment and be responsive to them. The focus of dynamic risk management is on continuous improvement of methods and procedures, proactive risk identification and reward, assured regulatory delivery, and risk behaviours that are evidenced in the industry. This leap from an established, process-oriented framework to a responsive and dynamic risk management framework is supported by investment in technology and risk culture building.

The ERM function has matured the following capabilities over the reporting period:

- **Governance, risk and compliance (GRC) system**: The GRC system is an enabler for developing a proactive approach to risk management. The capability of the system will allow all role players in the risk management framework to input and share risk information in real time and present up-to-date risk profiles based on integrated data across risk and assurance functions. The benefits of the system further include standardisation of risk management across the group ("speaking one *language*") and the ability for the audit and compliance functions to plan their work streams in a more integrated and efficient manner.
- **Group principal risk owners (GPRO) role**: The GPRO role was strengthened through the establishment of the Capricorn Group Risk Committee. The committee was established by the Capricorn Group EMT to assist with the oversight of risk management, compliance and risk governance across the group. The Principal Risks Policy grants the Risk Committee (Riskco) the authority necessary to oversee all aspects of

principal risk control framework implementation and operation. The committee is differentiated from entity risk committees through its oversight role, which includes an emphasis on the aggregated risk profile and adequacy of the group risk internal control and assurance framework (GRICAF) infrastructure and systems of control (the control frameworks).

- **Integration of Cavmont Bank and Bank Gaborone**: Value is created through centres of expertise (COEs) located in Namibia, which provide thought leadership and direction in addition to performing non-routine activities such as advisory engagements and special assignments. Examples include the Anti-Money Laundering unit, financial risk modelling, legal and compliance, corporate governance and risk culture building. While strategic direction setting occurs centrally it is developed and interpreted locally in line with the strategic guidance approach of the group. Decentralised, local execution meets market expectations. The sharing of services such as AML expertise and analytics provides for economies of scale and greater integration and engagement across risk management in Botswana, Namibia and Zambia.
- **Culture**: The emphasis on maturing a probing, sensing and action-oriented risk attitude across the group continued during the period. Risk culture building is supported and complemented through technology enablement.

# The risk landscape

## Overview of 2018

- Bank Windhoek remained well capitalised with a total capital adequacy ratio of 15.9% compared to a requirement of 10%. Bank Gaborone remained adequately capitalised with a capital adequacy ratio of 16.6% compared to a requirement of 15%. Cavmont Bank remained within the prescribed capital limits with a regulatory capital of K121 million compared to a requirement of K104 million.
- Namibia's money market improved from an average surplus liquid asset position of N$2.2 billion to N$3.2 billion in the year under review. The average Botswana money market surplus deteriorated from P1.7 billion to P1.2 billion on average in the year under review. The Zambia money market decreased from K1.6 billion to K1.3 billion on average in the year under review. The group has set up additional funding sources to cater for possible low market liquidity in the future. Market liquidity in the region is expected to be influenced by centralisation of government funds in Botswana and government spending habits in Namibia.
- The macroeconomic deterioration and the slowdown in growth in Namibia placed increasing pressure on the repayment ability of the customers of Bank Windhoek. Various customers of Cavmont Bank experienced difficulty repaying loans due to dependency on debtors for cash flows and high market interest rates. The Bank Gaborone market experienced a subdued growth compared to the previous year, with certain sectors showing negative growth, amongst others the mining sector and water and electricity sectors.
- Prime interest rates in Namibia decreased marginally over the past 12 months, with inflation slowing somewhat. The USD/NAD exchange rate remained stable over the last financial year. The private sector credit slowed and picked up slowly towards the end of the year due to various reasons, including policy changes, negative growth in the region and changes in government spending habits.
- Credit risk in Bank Windhoek was in line with expectations given the effects of the deterioration in the economic environment in the southern African region. This has contributed to an increase in arrears and non-performing loans (NPLs) of the group.
- Total net operational risk and financial crime losses increased to N$35.2 million from N$13.4 million in 2017, with financial crime losses accounting for 17% of the total. There was also a decrease in the number of operational risk and financial crime risk losses in 2018.
- The group's intent remains to comply with laws and regulations, with no financial penalties imposed on the group or any of its subsidiaries to date. The group seeks to maintain good relationships with all regulators and engage the latter regularly on all regulatory matters that could impact on compliance. Group ALCO has been established to improve the coordination and management of capital and liquidity risk across the group. The committee provides oversight and guidance with regards to the management of the asset and liability strategies, balance sheet and liquidity. This includes balance sheet optimisation, sight of key trends and risk indicators, and risk-adjusted pricing performance on a portfolio level. The ALCO additionally oversees the effectiveness and operation of capital, market and liquidity risk management across the group.
- Bank Windhoek has recently formed a Liquidity and Market Risk Forum, reporting into the risk committee, which enhances the focus on all liquidity risk indicators, strategies and challenges.

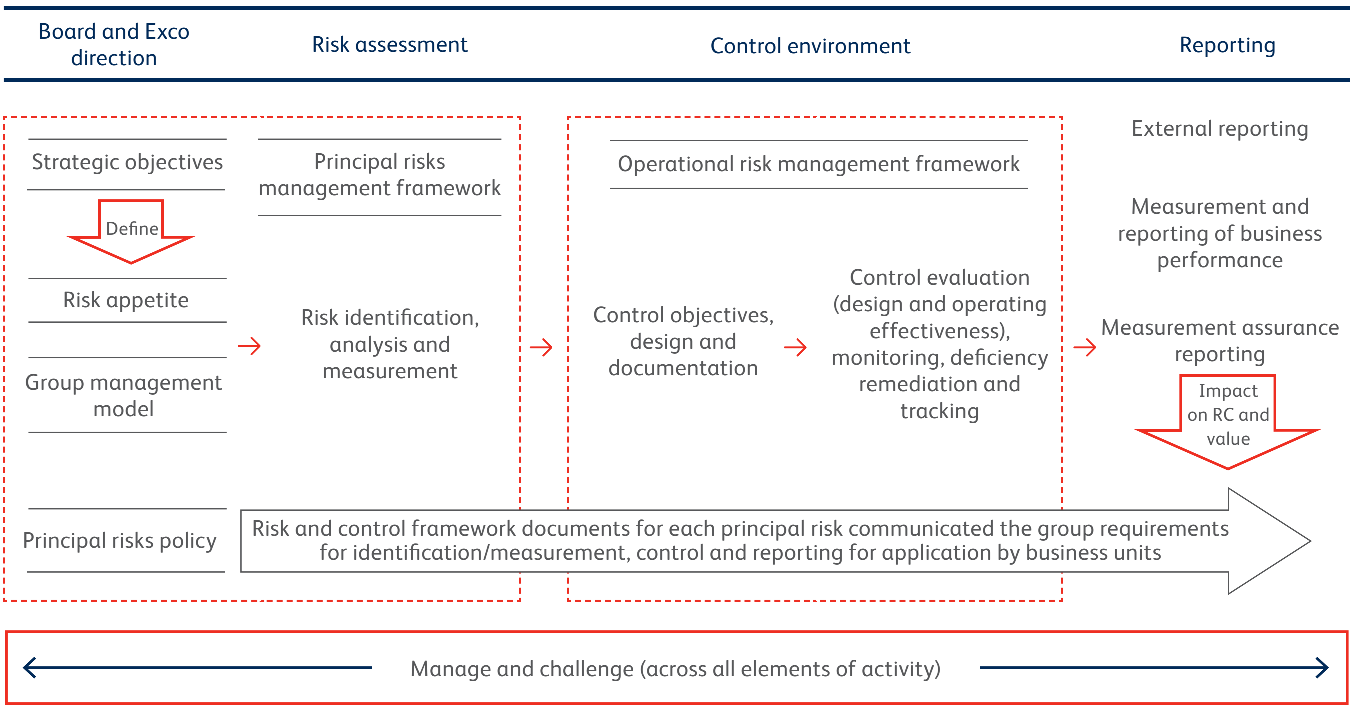
## Group risk internal control and assurance framework (GRICAF)

Capricorn Group is a regional provider of financial services, and it assumes risk exposure by the very nature of its business and its operations. The group identified 14 main risk categories that apply across the various operating units in all three jurisdictions (Namibia, Botswana and Zambia). The main risk categories have been defined as principal risks that are each managed according to a risk management framework. At a strategic level, risk management objectives are to:

- optimise efficiency through effective use of risk resources in the group
- directly contribute to the creation of end-customer value by eliminating unnecessary tasks in the process
- build standard risk management accountability, principles and processes into the business management process
- ensure risks are understood and managed proactively within acceptable risk capacity, appetite and tolerance

The group maintains an effective risk, internal control and assurance framework based on the standard risk practices of COSO and Basel II, as set out below.

High-level organisation and flow of GRICAF:




*Regulatory capital (RC)*

The group has adopted standard practices for each of the principal risks listed below. The uniqueness of each operating entity is considered when the GRICAF is applied. The standard practices of the GRICAF provide a common language and understanding of risk, which allows the group to standardise and aggregate risk reporting to enable effective oversight by governance structures. The board is ultimately accountable for effective risk management and responsibility is delegated through the board audit, risk and compliance committee to executive management to ensure that appropriate risk and control frameworks are designed and implemented. Each principal risk is assigned to an appropriate executive officer who is responsible for the design, implementation and maintenance of an effective risk and control framework for the principal risk. Entity PROs are responsible for the risk management frameworks within the respective entities. Group PROs are responsible for the appropriateness, effectiveness and consistency of principal risk frameworks across the various entities. The central risk functions are responsible for the overall infrastructure of the GRICAF and provide oversight and assurance in their second line of defence role.

The principal risks are:

1. Capital
2. Credit
3. Liquidity
4. Market
5. Operational
6. Technology
7. Legal
8. Reputational
9. Investment

# Basel II

Banking regulation in all three jurisdictions is based on Basel II. During the 2018 financial year, the group maintained Basel II standards for market, credit and operational risks.

The Bank of Namibia has embarked on the implementation of Basel III in 2017. The first revised determination, BID-5A (revised capital requirements for credit, market and operational risks), was issued for final comments in November 2017. The Bank of Namibia also revised its Basel III implementation timelines during November 2017.

The revised BID-6 (revised liquidity requirements, including the Net Stable Funding Ratio and the Liquidity Coverage Ratio) is awaited.

The group is proactively managing the risk to start adapting to compliance with Basel III ratios.

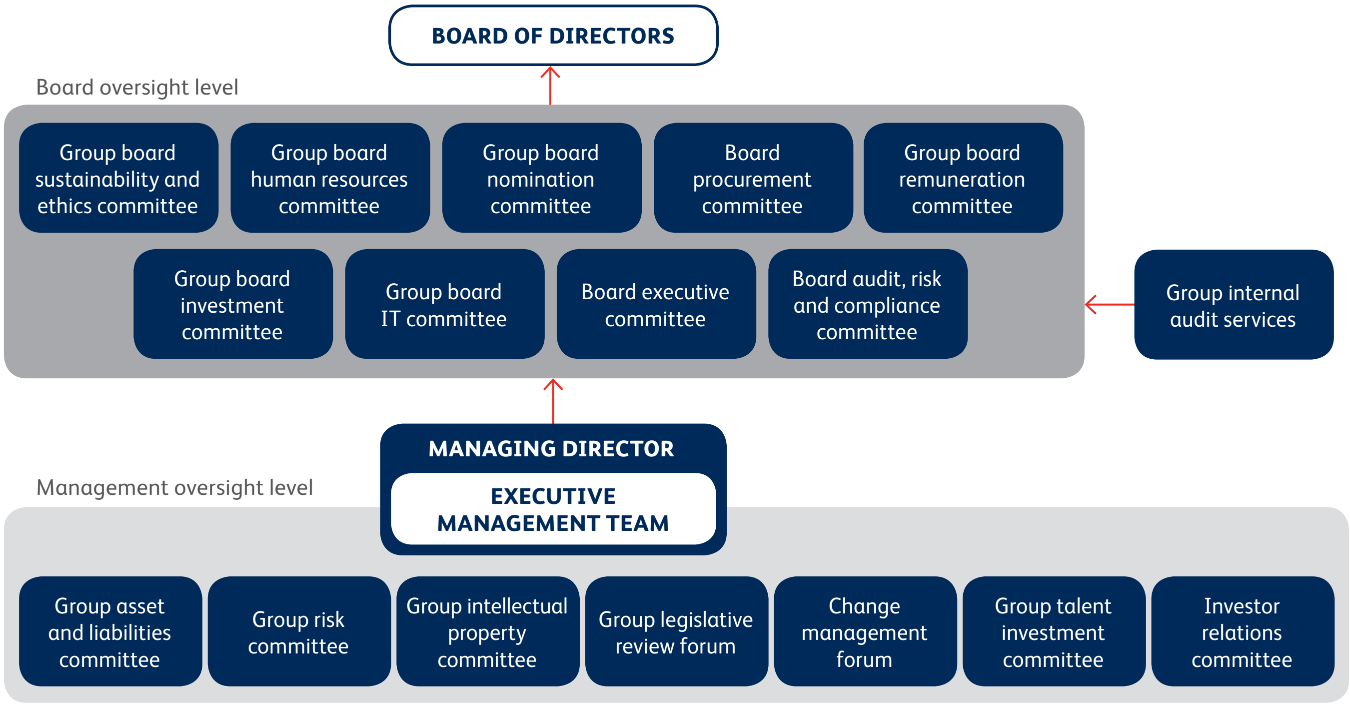
# Oversight of risk management

The Capricorn Group board is ultimately accountable for the adequacy of the GRICAF. The board discharges its responsibilities for risk management through the group governance structure (refer to the governance report on page 74) and specifically the board audit, risk and compliance committee. The board is assured of the adequacy of the GRICAF through the second and third lines of defence consisting of the risk, management assurance services, compliance and internal audit functions. In addition to the internal functions, the board draws on the perspectives of external auditors and regulators who conduct regular reviews of the operating entities in the group. The board is satisfied that the GRICAF was adequate during the 2018 financial year.

## Risk capacity, appetite and tolerance (RCAT)

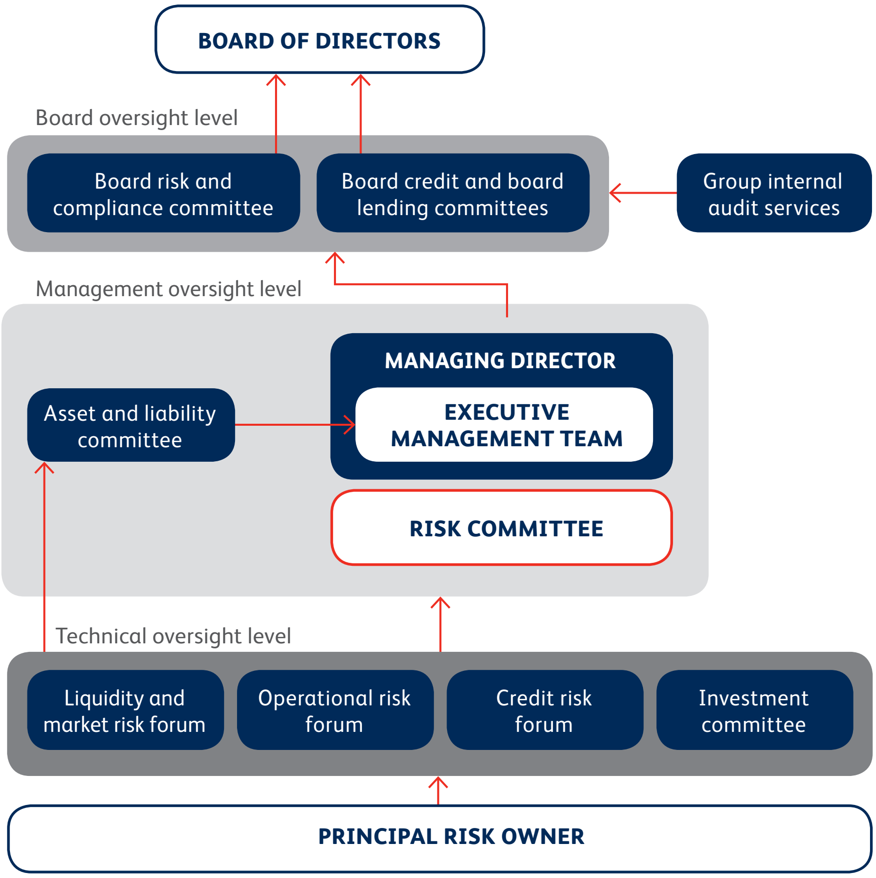
The RCAT is used to set the group's capacity, appetite and tolerance thresholds for risk. The RCAT collectively refers to qualitative and quantitative statements. The board sets qualitative risk appetite as well as quantitative risk capacity and appetite thresholds. The executive, through principal risk owners (PROs), sets quantitative tolerance thresholds for each of the principal risks. Quantitative measures include thresholds that, if breached, trigger a change in status that attracts a higher level of monitoring and action. The capacity and appetite statements are regularly reviewed and reported to the risk committee, executive management team and the audit committee.

## Capricorn Group risk oversight structure

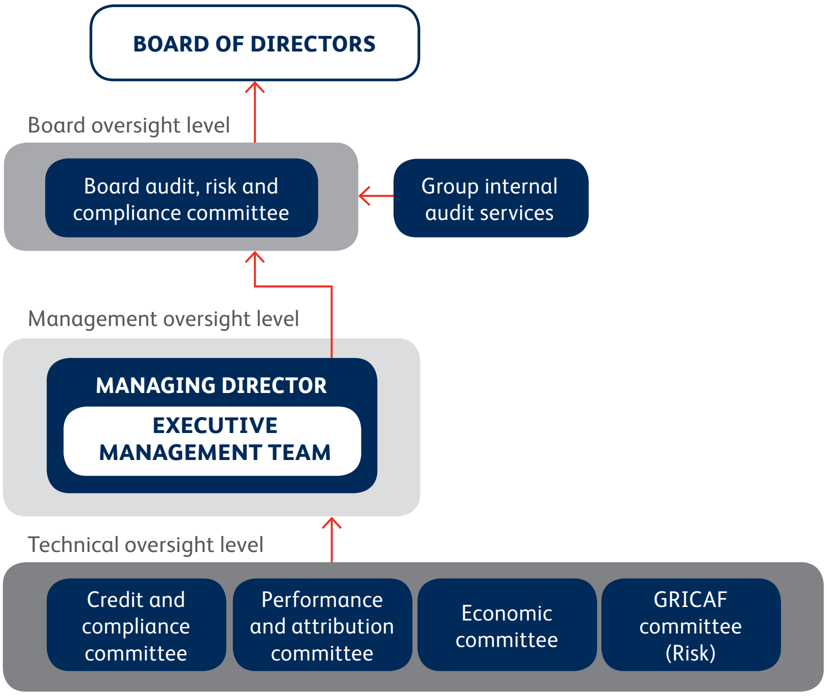


Risk management oversight and governance is structured in line with the size and complexity of a subsidiary, within its legal and regulatory environment:

## Banking subsidiaries' risk oversight structure



## Capricorn Asset Management risk oversight structure




## Risk priorities summary overview

| Risk addressed | Priorities for 2018 | Progress made in 2018 | Priorities for 2019 |
|---|---|---|---|
| Capital risk | Implement the minimum requirements according to Basel III.<br><br>Investigate the potential capital impact of IFRS 9. | The Basel III initial expected requirements were assessed by Bank Windhoek. The bank is expected to comply with the required capital requirements when BoN implements the regulations.<br><br>The potential impact of the initial take-on of IFRS 9 has been assessed for all entities in the group. The impact on Bank Windhoek is immaterial and the bank will remain with an adequate buffer above the minimum capital requirement. Bank Gaborone has raised additional Tier II capital and will comply with the minimum capital requirements of Bank of Botswana. Cavmont Bank has been significantly impacted by the requirements of IFRS 9 and is in the process of engaging with the regulator and raising the required capital. | Ensure that the expected capital ratios are adhered to in terms of Basel III regulations to be implemented in Namibia.<br><br>Successfully complete the first Bank Gaborone 2018 ICAAP report and maintain high quality ICAAP analysis and reporting for Bank Windhoek and Cavmont Bank. |

| Risk addressed | Priorities for 2018 | Progress made in 2018 | Priorities for 2019 |
|---|---|---|---|
| Credit risk | Maintain tight control over non-performing loans and recoveries in the current economic environment.<br><br>Successfully implement the IFRS 9 parallel run throughout the group.<br><br>Implement Basel III according to the BoN implementation timelines. | The financial year proved to be challenging in terms of the increase in non-performing loans. This is mainly because of the deterioration in the macroeconomy in the region. The group is measuring and monitoring the non-performing loans with an increased focus on recoveries.<br><br>IFRS 9 model development completed in the financial year and validated by external auditors. Parallel runs carried out in the financial year ended 30 June 2018. Provisions are expected to increase in line with market expectations. A material impact was noted at Cavmont Bank on IFRS 9 implementation due to improved modelling and more proactive impairment calculations.<br><br>Expected Basel III ratios investigated and measured. BoN has not yet implemented Basel III regulations. Bank Windhoek expects to comply with the new regulations. | Maintain focus on non-performing loans.<br><br>Enhanced portfolio level analysis and credit risk management with focus on risk-adjusted profitability measures and optimised IFRS 9 provisions.<br><br>Enhance group credit risk framework and improve oversight. Enhance specialist Group Principal Risk Officer function.<br><br>In Bank Gaborone, place specific focus on implementing client scoring as well as establishing and embedding a credit risk forum for managing credit risk in the bank, with enhanced reporting.<br><br>In Cavmont Bank, place specific focus on managing the clients with non-performing loans and focus on irregularity management.<br><br>Implement Basel III in Bank Windhoek once adopted by BoN. |
| Liquidity risk | Ensure compliance with phased-in Basel III capital requirements.<br><br>Adapt improved liquidity stress testing and scenario analysis.<br><br>Ensure diversification of funding sources. | The industry still awaits direction from BoN on the Basel III requirements but Bank Windhoek implemented the NSFR and LCR in anticipation of the regulation and to comply with IFC and DEG covenants.<br><br>Liquidity stress testing was completed for all three banks discretely and for group.<br><br>The reliance on the top 10 and top 20 clients remained high over the period. Focus continued on growing overall funding in order to reduce the reliance on this funding source. | Continue to focus on growing overall funding in order to reduce reliance on funding from top 10 and top 20 clients.<br><br>Enhance Bank Gaborone stress-testing methodology to include both assets and liabilities as well as other factors (broad scenarios) besides historic outflows.<br><br>At Bank Windhoek, run a liquidity simulation in FY2019 to test the bank's ability to withstand a liquidity crisis.<br><br>All three entities to focus on diversifying the funding base. Cavmont Bank to focus on foreign currency deposits and growing business cheque accounts with credit balances. |
| Market risk | Review funds transfer pricing (FTP) and make adjustments/enhancements as necessary before fully embedding the new FTP methodology into the bank and determine the requirements for group-wide implementation.<br><br>Align treasury and asset and liability management standards across the group and improve forward-looking capabilities. | Preparation for implementation completed in Bank Windhoek. Implementation at Bank Windhoek started on 1 June 2018.<br><br>Group ALCO oversight meetings held regularly. Group ALCO focus on synergies/opportunities, understanding and assistance. | Track progress of branches and behaviour to FTP process at Bank Windhoek. Enhance pricing model further. Resolve issues on Profit & Loss for currency trading.<br><br>At Bank Gaborone and Cavmont Bank, start with initial research and analysis for FTP implementation at the entities.<br><br>At Bank Gaborone, continue to focus on interest rate risk management.<br><br>At Cavmont Bank, focus on foreign exchange (FX) risk management by broadening the USD deposit base. |

| Risk addressed | Priorities for 2018 | Progress made in 2018 | Priorities for 2019 |
|---|---|---|---|
| Operational risk | Implement the governance, risk and compliance initiative to establish more dynamic and forward-looking practices including technology. | An automated GRC system, to support dynamic and forward-looking risk management, was implemented during the year. | Embed the automated GRC system to further enhance dynamic risk management.<br><br>Build an effective risk culture to support dynamic risk management.<br><br>Continuous improvement of fraud prevention methods and process optimisation through efficient and safe controls. |
| Technology risk | Full data centre disaster recovery capability | The disaster recovery technology was procured and is being implemented in each entity. | Embedding of compliance with disaster recovery functionality in all three banks. |
| | Data line redundancy (to improve continuity of data services) | Implementation of redundant links in Bank Gaborone is in progress and in the early stages of design in Cavmont Bank. Selective upgrades being undertaken for Bank Windhoek. | The completion of alternative links for selected branches in each entity. |
| | Business requirements incomplete and/or inadequate | Repositioning of the project management office improved efficiencies and created greater transparency in change resource allocation and flow. | Realign the project management office with group strategy, staffing and functions and adopt improved methods to increase change throughput. |
| | Unmanaged IT Service Level Agreements (SLA) | Third-party service level agreements were reviewed and new agreements were put in place where none existed. A management process and tool was implemented. | Maintain and embed the service level agreement process. |
| | Business continuity planning documentation | The business unit plans were reviewed and aligned with the Group IT integrated plan. | Embedding of business continuity planning. |
| Compliance risk | Embed a compliance risk monitoring capability. | Compliance monitoring capacity was created and monitoring procedures were reviewed and enhanced. | Embed compliance monitoring for general and AML compliance in the group. |
| Legal risk | Review of the Group Legal Risk Framework and refinement of KRIs. | The Group Legal Risk Framework was reviewed and enhanced. | Monitor and ensure consistent adoptions in all jurisdictions. |
| | Review of the Legal Risk Policy. | Legal Risk Policy was reviewed and updated for adoption by all group entities. | Monitor and ensure consistent adoptions in all jurisdictions. |
| | Implementation of a contract management system. | All historic records were migrated to the new system and loaded correctly to fully utilise functionality of the system. Automation of the contract approval process commenced. | Fully embed the automated contract approval process.<br><br>Revise and create template agreements to facilitate the procurement process. |
| | Implementation of an intellectual property system. | All historic records were migrated to the new system and correctly loaded to fully utilise functionality of the system. | Fully embed and utilise the functionalities of the system. |

| Risk addressed | Priorities for 2018 | Progress made in 2018 | Priorities for 2019 |
|---|---|---|---|
| Reputational risk | Review of the Group Reputation Risk Management Framework. | Group Reputation Risk Management Framework was reviewed and enhanced. | Conduct brand audit to test perceptions of stakeholders about the Capricorn Group brand. |
| | Development of the Capricorn Group Media Management Policy and appointment of official spokespersons for the group. | Group Media Management Policy was approved by the Board and official spokespersons were appointed for Capricorn Group for a 12-month period. | Conduct a compliance audit on the application of the Group's Brand Manual and Corporate Identity Guidelines. |
| | Development of the Capricorn Group Social Media Policy as social media poses a great reputational risk if employees of the group do not adhere to the policy. | Group Social Media Policy was approved by the Board and internal awareness campaign was launched to educate staff on appropriate use of social media platforms. | Enhance the Group's strategic stakeholder engagement plan by seeking partnerships with like-minded institutions in line with the group's brand position – Connectors of Positive Change. |
| | Formulate the group's Strategic Stakeholder Engagement Plan. | The Group's Strategic Stakeholder Engagement Plan was developed and approved by Exco. A number of key stakeholder engagement events were held. | Launch awareness campaign among employees to improve the escalation and reporting of any current or potential reputation risk. |
| | Plan stakeholder engagements in Namibia, Botswana and Zambia to test stakeholders' views on the material matters of the Group. | Stakeholder engagements were conducted in Namibia, Botswana and Zambia, confirming that stakeholders are in agreement with the group's material matters and risks. | |
| Investment risk | Review, amend and implement fund matrices and investment process. | The investment approach was aligned during the period with stricter mandates being implemented in a range of unit trust funds. | |

# Principal risks

## Capital risk

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

During the year under review, all entities in the group remained well capitalised and within regulatory limits. The impact of IFRS 9 has been assessed, and the necessary measures taken to ensure that the initial capital movement with the implementation of IFRS 9 will not cause any breaches in capital ratios.

### Capital management principles

- The group complies with the capital requirements set by the regulators in the respective jurisdictions of the banking operations where the entities within the group operate.
- Efficient capital management delivers on the group's return on capital targets to ensure shareholders' expectations are met, while making adequate capital available to support business growth.
- Capricorn Group's long-term strategy is to build sustainable stakeholder value, which requires ensuring that group capital levels are sufficient to achieve this.

### Capital management for the Namibian banking group

The Bank of Namibia requires each bank or banking group to maintain the following capital adequacy ratios:

- Tier 1 capital to total assets, as reported in the statutory return, at a minimum of 6%, referred to as the leverage capital ratio.
- Tier 1 capital to the risk-weighted assets at a minimum of 7%, referred to as Tier 1 risk-based capital ratio.

The total regulatory capital to risk-weighted assets at a minimum of 10%, referred to as total risk-based capital ratio.

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

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

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

- Tier 1 capital to total assets
- Tier 1 capital to risk-weighted assets
- Total regulatory capital to risk-weighted assets

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

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

### Capital management for the Botswana banking group

The Bank of Botswana requires each bank or banking group to maintain the following capital adequacy ratios:

- No requirement for leverage ratio.
- Tier 1 capital to the risk-weighted assets at a minimum of 7.5%, referred to as Tier 1 risk-based capital ratio.
- The total regulatory capital to risk-weighted assets at a minimum of 15%, referred to as total risk- based capital ratio.

### Capital management for the Zambian banking group

The Bank of Zambia requires each bank or banking group to maintain the following capital adequacy ratios:

- Tier 1 capital to the risk-weighted assets at a minimum of 5%, referred to as Tier 1 risk-based capital ratio.
- The total regulatory capital to risk-weighted assets at a minimum of 10%, referred to as total risk-based capital ratio.
- The minimum capital requirement for licensing is currently K104 million for a locally owned bank, and K520 million for a foreign owned bank. Therefore, the total regulatory capital at any time for Cavmont Bank is the higher of 10% of total risk weighted assets or K104 million.

Read more about the composition of regulatory capital and the ratios of the group for the year ended 30 June 2018 in the summary in note 3.6 of the consolidated annual financial statements from pages 199 to 201.

## Credit risk

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

The effects of the deteriorating economic environment in southern Africa and pressured government payment in Namibia affected certain loan portfolios of Bank Windhoek, and as a result increases were observed in non-performing loans. Additional measures have been put in place to proactively manage irregularity and optimise recoveries under the difficult economic circumstances. For Cavmont

Bank, increases in NPLs were observed due to, among others, over-reliance on debtors' repayments of customers of the bank. Slow growth in the economy impacted various sectors in the Zambian market.

The impact of IFRS 9 provisions on the increase in provisions was assessed during the year under review. Focus was placed on understanding the expectations of IFRS 9 and the enhancement of the modelling for the provisions calculations. The models were validated by external auditors, and parallel runs were conducted in the financial year ending 30 June 2018.

Changes in market conditions and the appetite for loans and advances caused gross advances to grow by a smaller amount in this financial year compared to previous years. Gross loans and advances in Bank Windhoek grew by 4.5% to N$30.0 billion compared to N$28.7 billion recorded the previous financial year. NPLs as a % of gross loans and advances increased from 1.4% to 2.8%. This is in line with expectations in the pressured economic environment.

Impairments increased by 24.7% to N$58.1 million (2017: N$46.6 million). This is also expected to change with the adoption of IFRS 9 in the following financial year.

**Capricorn Group consolidated June comparison**

| | Year-on-year Δ | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Specific provisions (N$'000) | 35.0% | 258,411 | 191,412 | 147,829 |
| Impairments (N$'000) | 39.4% | 80,840 | 57,998 | 60,779 |

### Credit risk management process

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

## Liquidity risk

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

The market liquidity improved compared to the previous year in Namibia, while market liquidity in Botswana deteriorated compared to previous years. The group has also invested in additional funding lines to ensure a stronger liquidity position when the group entities experience liquidity constraints.

### Liquidity risk management process

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

The liquidity risk is managed by monitoring various identified variables, which include:

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

## Market risk

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

From the above the following detailed risks arise:

- Interest rate risk: the risk of loss resulting from changes in interest rates, including changes in the shape of yield curves.

- Currency risk: also known as foreign exchange risk, which arises from fluctuations within the currency market.
- Basis risk: the change in price basis or spread between two rates or indices changes, e.g. the price of an asset does not change in the same manner as a change in a liability, or the spread between the funding and lending rate changes.

The effect of sensitivity of the book on interest rate moves can be seen in note 3.3.3 of the consolidated annual financial statements.

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

The exchange rate in Zambia is monitored with increased focus on foreign currency deposits.

### Market risk management process

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

The interest rate risk is well managed at Bank Windhoek and geared to take advantage of an interest rate hike. The volatile environment and lack of clear direction and timing on interest rate moves made it difficult for ALCO to implement a strategic plan for the next 12 months and the focus was on growing liabilities nonetheless. The interest rate view has stabilised recently and agrees with the high-level strategy of the funding desk.

The FX risk at Cavmont Bank is tracked and actively measured, and USD deposits taken on in order to mitigate currency risks.

Interest rate risk is well managed at Bank Gaborone in the year under review and continuously monitored at the ALCO, group ALCO and risk committee.

## Operational risk

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

- Operations risk – The risk of failure to deliver the intended outcome regarding customers, products and services, facilities, data, processes, business continuity, physical cash management, payment management and change execution and delivery. Losses due to payment errors or theft due to poor physical security are examples of this risk.
- Customer risk – The risk that customers' needs in terms of products and services offered are not met. Loss of customers due to poor customer service is an example of this risk.
- Technology risk – The risk that the strategic technology investment is not aligned to the group's vision or business strategy, or catastrophic failure of technology to deliver secure IT services that provide critical business services. System breakdowns or systems being offline are manifestations of this risk.
- People risk – The risk of failure to achieve the group's business objectives through problems that may arise from people-related issues. Vacancies in key positions and a lack of performance management are examples of this risk.
- Finance and tax risk – The risk of failure to monitor and report on statutory financial requirements in line with the group's requirements or failure to meet tax obligations. The restatement of the annual financial statements is an example of this risk.
- Legal risk – The risk of exposure due to failure to conduct business in accordance with laws or contractual obligations. Planned and potential litigation is an example of this risk.
- Financial crime risk – The risk of fraud or dishonesty, misconduct or misuse of information relating to a financial market, the handling of the proceeds of crime or the financing of terrorism. Financial crimes may involve fraud (cheque fraud or credit card fraud), theft, scams or confidence tricks, tax evasion, bribery, embezzlement, identity theft, forgery and counterfeiting, computer crime, phishing, burglary and armed robbery. Phishing attacks are an example of this risk.
- Reputational risk – This is mainly a consequence of the realisation of other risks and is the risk of failure to understand, identify or manage events that impact negatively on the group's reputation. Loss of customers and revenue due to negative publicity is an example of this risk.

| | Capricorn Group consolidated June comparison | | | | |
|---|---|---|---|---|---|
| | Year-on-year ∆ | 2018 | 2017 | 2016 | 2015 |
| Total losses as a % of gross income | 127 % | 1.16 % | 0.51 % | 0.40 % | 0.42 % |
| Total operational risk losses (N$'000) | 162 % | 35,239 | 13,410 | 12,160 | 10,300 |

The decrease in the operational risk losses in the banking subsidiaries is due to increased risk awareness and training, especially with regard to losses incurred to procedures not followed, fraud awareness on social media platforms, introduction of EMV-compliant chip cards for all card products and SMS notifications for all debit transactions.

## Operational risk management framework

The group has adopted the standardised approach to operational risk management under Basel II as the foundation for its operational risk management framework. This is an appropriate approach for the group because it is prescribed by regulation for banks in all three jurisdictions and it is easily adapted for use in non-banking entities. Operational risk is managed through the operational risk management framework. Within the framework, qualitative and quantitative tools are applied to identify and assess operational risks and to manage the mitigation of identified control weaknesses. The prime responsibility for the management of operational risk rests with the management of business units where the risk arises.

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

### Control self-assessments (CSAs)

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

### Key risk indicators (KRIs)

KRIs are quantitative measurements specifically used for the following:

- measurement of risk exposure via the risk capacity, appetite and tolerance (RCAT) statement and thresholds
- measurement of the effectiveness of internal controls

### Risk incident and loss event reporting

Losses and risk incidents are included in monthly risk reports through the collection of information from business units. The group has built up an internal database of internal risk incidents and losses of more than eight years. The data is used for trend analysis, risk modelling and capital adequacy assessment.

### Risk issue remediation and closure process

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

### Financial crime

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

### Factors that influenced operational risk

The frequency and sophistication of cyber-related fraud are addressed through SMS notifications, EMV-compliant chip cards, proactive fraud monitoring and regular fraud awareness.

Risk assessments were compiled before the launch of the following departments and products during the 2018 financial year to ensure that the relevant risks are mitigated:

- Capricorn Private Wealth
- Bank Windhoek credit cards

## Technology risk

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

## Compliance risk

Compliance risk is the risk of failure to comply with applicable rules and regulations, and in so doing, exposing the group to penalties and reputational damage. Penalties received or due for non-compliance are an example of this risk. As a leading financial services group, the group faces complex challenges to ensure that its activities comply with local legislation, regulations and supervisory requirements and the relevant international standards and requirements.

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

The compliance function consists of general compliance, compliance monitoring and money laundering compliance; and the methodology followed by the compliance function has been developed and benchmarked against the standards prescribed by the Southern African Compliance Institute.

### Key activities undertaken by general compliance

The key activities undertaken by general compliance to support the directors, executive officers, management and employees in discharging the relevant compliance responsibilities with respect to the conduct of business activities and engagement with regulators include the following:

- Compliance risk management framework – The framework sets out the minimum requirements for the management and control of compliance risk at different levels within the group.
- Compliance risk identification, assessment and prioritisation – Compliance risks, once assessed, are consolidated into a compliance risk profile. Given that the group is a dynamic corporate entity and the regulatory landscape is evolving and becoming increasingly stringent, the regulatory risk profile is reviewed and updated at least annually or as and when new regulatory requirements are introduced, to ensure that the risk of non-compliance with applicable laws, regulations and supervisory requirements is mitigated.
- The compliance department has implemented a legislative review forum to alert business unit owners and accountable executives to new regulatory developments impacting on the business of the group and to develop controls for the mitigation of compliance risks identified.
- Compliance risk management plans (CRMPs) – The CRMPs serve as a management tool, outlining the compliance risks that the business units or support functions are exposed to and controls that are implemented to manage and mitigate those risks. These plans have been developed and are updated on an annual basis or as and when compliance risk changes or when new regulation or legislation is introduced.
- Compliance risk monitoring – Monitoring of compliance risk is only conducted for CRMPs implemented for high-risk core legislation. During the financial year, there were no financial penalties or public reprimands imposed on the group or any of its subsidiaries.
- Compliance risk reporting – Compliance reports are submitted to board risk and compliance committees and the group board audit, risk and compliance committee, which are attended by directors, executive officers and management.

### Key activities undertaken by anti-money laundering compliance

The key activities undertaken by anti-money laundering compliance are to support the directors, executive officers, management and employees in discharging their responsibilities in respect of the risk of Anti-Money Laundering (AML), Counter-Terrorism Financing (CTF) and Counter-Proliferation Financing (CPF) and include the following:

- Governance and oversight – Anti-money laundering compliance sets policies and provides guidance and training relating to AML/CTF/CPF regulatory requirements.
- Regulatory or policy breaches – AML/CTF/CPF compliance reports any breaches to the various governance forums and, if required, to the regulators.
- Monitoring – AML/CTF/CPF compliance monitors compliance with AML/CTF/CPF and sanctions legislation and regulations.
- Training – The group has developed and maintains ongoing training programmes for employees on AML/CTF/CPF activities.

## Legal risk

Legal risk can be described as the risk of exposure due to a failure to conduct business in accordance with laws or contractual obligations. Planned and potential litigation is an example of this risk.

### Overview for 2018

The focus for the 2018 financial year was on the implementation of the contract management system and the intellectual property management system in line with the strategic view of maturing our risk models through the appropriate use of technology. The review and enhancement of the legal risk framework, KRIs and policy for adoption consistently group-wide has also been a key deliverable in working towards a more mature legal risk framework within the broader objective of embedding a dynamic and forward-looking risk management environment.

## Reputation risk

Reputation risk is mainly a consequence of the realisation of other risks and is the risk of failure to understand, identify or manage events that impact negatively on the group's reputation. Loss of customers and revenue due to negative publicity is an example of this risk.

## Investment risk

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

### Overview for 2018

The period under review was characterised by the following features:

- The global economy continued to gain pace with growth numbers looking positive in most developed markets. Emerging market growth rates were mixed.
- As expected globally the trend was for tighter monetary policy, especially in the US, which led to an ever-strengthening US Dollar. Locally we saw a marginal decline in the central bank rate, but this is not expected to signal the start of an easing monetary policy stance.
- The uncertain political backdrop continued to hamper growth in South Africa and weigh heavily on the rand, and by default on Namibia. Although some green shoots have emerged after the election of a new president, these have yet to translate into meaningful economic growth and job numbers.
- Namibia is still reeling from heavy fiscal cutbacks in the previous year and, although liquidity has stabilised, credit growth numbers remain benign, indicating a prolonged low economic environment.
- Rand weakness: From 1 July 2017 to 13 November 2017 the rand experienced significant weakness and depreciated with 9.4%. From November 2017 to the end of February 2018 the rand appreciated with 25% to regain mid-2015 levels. However, by 30 June 2018, the rand had depreciated by 18% to 13.8006 Rand for 1 US Dollar. Overall there was a 3.8% depreciation year on year.
- Inflation continued to drift lower, reaching its low point of 3.80% in April 2018. Rising prices, especially of oil, and the rebasing effects from the food portion in the basket will cause inflation to be higher over the coming period.

# 09 BOARD SUSTAINABILITY AND ETHICS COMMITTEE (BSEC) REPORT

The Capricorn Group strives at all times to be a good corporate citizen, and to this end, the BSEC has been mandated by the board to provide the relevant stewardship, through the implementation of a sustainability and ethics strategy and reporting framework.

The committee's terms of reference include, inter alia:

- recommending to the board policies and guidelines for matters relating to the group's sustainability strategy and philosophy, good corporate citizenship and ethics issues
- reviewing reports on the policies and sustainability and ethics performance of the group
- monitoring any relevant legislation, other legal requirements or prevailing codes of best practice regarding
    - social and economic development
    - good corporate citizenship
    - environment, health and public safety
    - consumer relationships
    - compliance with consumer protection laws
    - compliance with human rights conventions
- reporting to the board on a quarterly basis, and to shareholders on an annual basis
- recommending to the board substantive national and international regulatory and technical developments for adoption
- encouraging participation, cooperation and consultation on environment, social and ethics matters
- escalating matters to the group board audit, risk and compliance committee on material issues regarding sustainability and ethics risk

Read more about the composition of the committee on page 76 and refer to pages 68 and 69 for profiles of its members. The committee met twice during the year, with attendance set out on page 76 of the governance report.

## Sustainability focus and approach

### Sustainability philosophy

Credibility is key to value creation. We believe that we are part of a bigger, interconnected global system. Our approach to being a responsible local, regional and global citizen is built into the DNA of all our businesses in Namibia, Botswana and Zambia. We aim to be open, transparent and accountable in our reporting.

### Sustainability focus

Key sustainability challenges that Capricorn Group may potentially face in future include climate change, poverty, health issues and resource shortages, i.e. water, energy and food. In addressing these global and local issues we intend to use all our business lines, including banking, investment and asset management, microfinance and property finance to address the key sustainability challenges.

### Sustainability approach

The group's sustainability strategy takes a holistic approach, encompassing environmental, social and economic factors.

The overall approach incorporates these steps:

## Sustainability programme and reporting to the BSEC

The group's sustainability programme consists of six domains that each represent a certain perspective on the topic of sustainability. The six domains are driven by and monitored through key performance indicators (KPIs) that were selected for their relevance and importance to the group. The KPIs are reported to the committee.

The six domains of our sustainability programme are:

1. Environmental and social management system (ESMS): this is used by Bank Windhoek to assess environmental and social risks as input to the credit process. It assists in identifying and addressing environmental and social gaps, thereby improving the overall sustainability of a client's business.
2. Material matters: these provide a strategic perspective of risks and opportunities. These matters were affirmed by an external stakeholder engagement process and assist in anticipating and addressing material risks to the strategy of the group. Each of the matters is addressed through a number of actions.
3. Internal environmental sustainability: this is driven by the desire to implement sound environmental practices as part of The Capricorn Way. The main drive behind this perspective is to shape a connected and "aware" culture and to demonstrate a commitment to the environment (earth) while ensuring that the group is proactive in its response to changes in the availability of natural resources.
4. Corporate social investment (CSI): this includes a broad range of social projects specific to the social needs of the territories in which the group operates.
5. United Nations Global Compact (UNGC): this provides a global platform for collaboration to achieve the Sustainable Development Goals (SDGs). Through the group's UNGC membership, which provides access to various resources, Capricorn Group is able to make meaningful contributions to regional and global initiatives that promote the achievement of the SDGs.
6. Global Reporting Initiative (GRI): this assists in understanding and reporting sustainability impact. The GRI disclosures form an integral part of the various domains by providing KPIs for monitoring and regulating development in each stream. By selecting applicable and appropriate KPIs the group is guided to promote aspects that are known to be of significance for sustainability and of importance to the group's stakeholders.

Initiatives, key focus areas and progress on implementation related to the six domains are provided below.

# Sustainability strategy review and SDG alignment

The committee reviewed the scope of its work during the year to assist in streamlining the functioning of the board's structures. The review included setting objectives that are clearly aligned to the SDGs and adhere to the UNGC principles.

The committee selected five social SDGs and one natural capital goal to provide contextual direction for the group's sustainability objectives:

The group's Social Investment Policy was approved by the Capricorn Group board in June 2017. The policy guides corporate social investment activities in the group and all group entities were required to adopt the policy. Although the policy outlines focus areas and general exclusions, and requires each entity to have a Corporate Social Investment (CSI) committee to oversee the allocation of funds, reporting on CSI activities varies significantly across the group.

Oversight responsibility over SDG actions specifically related to internal human resource (HR) matters such as internal gender parity falls within the remit of the group board HR committee.

As part of the sustainability strategy review, the committee directed extensive work on mapping the journey from CSI to CSR. Consequently, the board commissioned a critical review of the internal and external practices to determine how the group's social investments should be approached going forward.

The review of the group's CSI model measured its efforts and initiatives against international and local best practices. It also assessed the functioning of the programmes and the tangible benefits they delivered to all stakeholders, while maintaining a positive impact on business.

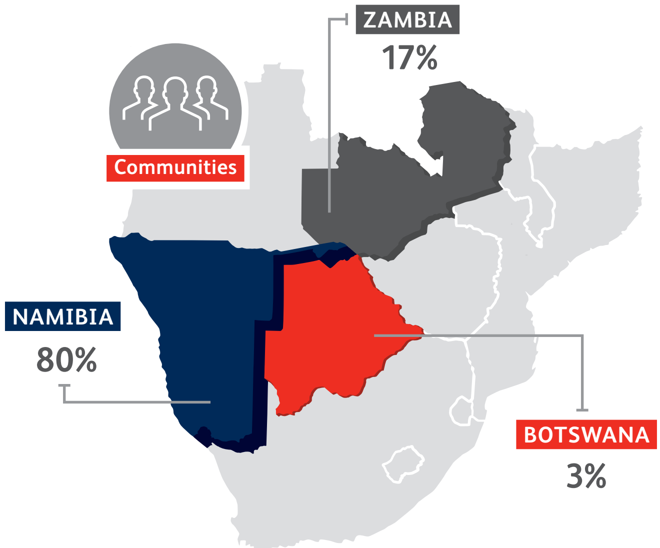
Detailed research findings were presented to various internal stakeholders during 2018. An evolutionary change from CSI to strategic Corporate Social Responsibility (CSR) was adopted, and will direct the formulation of a new CSR vision, philosophy and strategy all to be embodied in a new CSR policy for the group.

During the period of transition to CSR, each entity in the group will continue to budget for their CSR spending according to the existing policy. Group entities were further encouraged to identify opportunities to supplement allocations through financial and/or resource partners, allowing for greater impact and addressing the principle of blended value. Signature projects must have an element of social entrepreneurship, adding to their sustainability.

## Capricorn group corporate social investment overview

### Our areas of contribution:

- Social Investment Fund projects in line with policy focus areas
- Health
- Consumer education and financial literacy programmes and initiatives
- Employee training and development
- Environmental projects
- Animal welfare
- Sport development
- Arts and culture development
- Agricultural projects
- Poverty and hunger eradication (social welfare)
- Youth development




| | | | |
|---|---|---|---|
| **50%** on employee training, development and bursaries to students | **25.6%** on consumer education and financial literacy | **9.4%** on sport development | **6.4%** on social investment fund projects |

## Capricorn Group's commitment to the UNGC principles

Capricorn Group reaffirmed its support of the Ten Principles of the United Nations Global Compact in the areas of human rights, labour, environment and anti-corruption.

The following examples provide a summary of the group's communication on progress and describe the group's actions to continually improve the integration of the Global Compact and its principles into business strategy, culture and daily operations.

### Human rights

Human rights are enshrined in the Namibian constitution. The Capricorn Group is committed to upholding human rights as enshrined in the constitution and laws of the jurisdictions in which the group operates. Internal policies and procedures are in place to protect the human rights of employees and to detect and remedy violations of the policies. Key performance indicators that are tracked through the sustainability dashboard to support the advancement and protection of human rights include the percentage of female permanent employees, women in middle and senior management, percentage of employees with disabilities in the workforce, racially disadvantaged permanent employees and racially disadvantaged persons in middle and senior management.

### Labour

The group does not make use of child labour, migrant workers or forced labour. The rights of workers are protected by internal policies and labour laws, which regulate employment in all jurisdictions. The risk of violating the rights of workers is low. The right of workers to organise themselves through labour unions is also protected by law.

The human resource committee has oversight of labour-related matters, including the policy framework. New employees are made aware of policies through an induction programme and policy changes are communicated to all staff as and when they occur. A formal grievance procedure protects the rights of employees. The remuneration policy outlines the remuneration principles of the group and is the guiding document in terms of fair remuneration.

### Environment

As a financial services provider, the group's operations have limited direct environmental impact. However, through lending activities the group has an indirect impact on society and the environment. The latter impact is managed through the ESMS at Bank Windhoek, the Group Sustainability Framework and Social Risk Management (ESRM) policy. The ESMS requires that loans are assessed for social and environmental impact and a due diligence must be performed on all loan applications assessed with a significant risk. Action plans are required where gaps in the environmental and social performance of a business have been identified. In cases where the International Finance Corporation (IFC) threshold is triggered, further due diligence is carried out through application of the Performance Standards. The ESMS ensures that clients are compliant with all national environmental laws and regulations. An exclusion list was compiled for activities that are not permitted due to unacceptable social and environmental impacts.

### Anti-corruption

The group is determined to maintain a culture of high ethical and moral standards, honesty and opposition to fraud and corruption. As a listed entity, Capricorn Group complies with the NamCode on Corporate Governance, which requires a statement by the board confirming compliance with all applicable laws. This includes the Namibian Anti-Corruption Act 8 of 2003, which criminalises corrupt conduct and practices.

The BARC has oversight of ethics and compliance reporting. The group has various policies in place to prevent corruption internally and externally, including the Group Code of Ethics and Conduct Policy, Group Procurement Policy, Group Whistleblower Policy, the Bank Windhoek Forensic Policy and the Group Financial Crime Risk Framework. The Procurement Policy was augmented with a suppliers' code of conduct which requires suppliers to adhere to standards of good conduct towards employees, the environment and in relation to anti-bribery, corruption, reporting and disclosure.

Awareness of anti-corruption is created through induction training, internal communication and annual conferences held for branch administrators that cover issues on anti-corruption.

Bank Windhoek currently chairs the Anti-corruption and Fraud Subcommittee of the Banking Association of Namibia.

No cases of corruption or bribery were reported or investigated in the reporting year, within the group or against the group.

## Group Code of Ethics and Conduct Policy

The committee reviewed, adapted and approved the Group Code of Ethics and Conduct policy during the year. Due to the close relationship between the ethics of employees and the manner in which employees conduct themselves, the group seeks to describe both the ethical values and conduct it expects from its employees and non-executive directors in this policy. Ethics involves the core values of the group that serve as the moral foundation for all other rules and policies, including the rules of conduct also set out in the policy.

Changes were made to the policy to describe in detail the desired ethical behaviour of non-executives, including fiduciary duties, conflicts of interest and duties to display reasonable skills and care.

The group conducts an ethics risk assessment as part of its ethics program. The ethics risk assessment is based on an anonymous survey conducted throughout the group. The ethics survey informs an understanding of the ethical conduct of employees and assesses whether the climate is conducive for ethical behaviour. Gaps identified in the assessment are addressed through management actions overseen by the Group board sustainability and ethics committee.

## Stakeholder engagement plan and sponsorships

The group aims to make a significant, sustainable and socially responsible contribution to all its stakeholders. A lack of engagement represents a long-term risk to the group. It is therefore vital to engage with stakeholders who have the greatest potential impact on operations, or who could be significantly affected by the group's business activities. Capricorn Group developed a strategic annual stakeholder engagement plan focused on engaging specific stakeholders on strategic themes with the goal of facilitating the mitigation and reduction of business risks and promoting the group's growth.

Stakeholder relationship management is the responsibility of every employee. The group recognised that information and training should form part of the establishment of a stakeholder relationship management and engagement structure. Consequently, a plan was developed to support, assist and collaborate with entities in the group so that a customised, coherent and consistent approach to stakeholder engagement is adopted.

Stakeholder engagement highlights for the past year include:

| Engagement | Stakeholder cluster | Outcome |
|---|---|---|
| Integrated reporting workshop | Strategic partners, investors and potential clients | The group strives to be a centre of excellence in global reporting for companies and partners in Namibia and beyond. The group provided investors with the information they need to make more efficient capital allocation decisions for better long-term investments returns.<br><br>The Chartered Secretaries Southern Africa, in partnership with the JSE Limited, selected Capricorn Group as the winner of the 2017 Regional Integrated Annual Report category. |
| Thought leadership event: A day with Willem van der Post and Capricorn Group | All stakeholder clusters | Capricorn Group is committed to sharing new ideas and displays a passion for inspiring individuals within the communities in which it operates to become catalysts of positive change. Awareness was created amongst leadership and talent in the group about the attributes of "exponential organisations" and how the convergence of technological advances leads to new opportunities and threats. |
| Institute of Corporate Governance's annual networking programme | Regulators | The group participated in national discussions around corporate governance and is recognised as a centre of excellence for executing corporate governance in the regions where it operates. |
| Financial journalism workshop | Media | Media/journalists involved in financial reporting were upskilled in the art of understanding, translating and reporting on financial information. Strong relationships with the media were built with the group being perceived as approachable, accessible and willing to give input and improve the skills of the media in the country. |

| Engagement | Stakeholder cluster | Outcome |
|---|---|---|
| Annual financial results presentation | Investors | This presentation promoted transparency and compliance. |
| Collaborate in support of Live2Lead Leadership Seminar | All group stakeholders invited by the Live2Lead team | The seminar contributed to Capricorn Group brand recognition while new strategic perspectives, practical tools and key takeaways were shared. Individuals learned from world-class thought leadership experts and returned to their offices ready to implement new action plans and lead with renewed passion and commitment. |
| Imago Dei | Communities | Capricorn Group shared a common purpose with Imago Dei in connecting people to positive change. In this way, the community of means (corporates with CSI policies, like Capricorn Group) are connected with the communities of need (excluded, vulnerable and marginalised communities). Capricorn Group assisted the charity to fulfil its mandate in Namibia through donations, skills transfer and employee volunteer projects. These initiatives assist in showcasing the group as a partner in national development. |
| ICAN | Communities | As a sponsor of ICAN, the group created a platform for engagement with current and upcoming charted accountants (CA) from an employer perspective. Capricorn Group positioned itself as an employer brand among CA professionals by providing financial support and participating in events. |
| Talent events | Employees | The group created a platform for employees to interact with executive leadership to foster a culture of connection and a sense of belonging to the Capricorn Group. |

## Future focus areas

In the next financial year, the committee will complete the work started on the journey from CSI to CSR, which includes approving a new philosophy, establishing a legal vehicle, identifying funding mechanisms and defining the target operating model and structure for CSR. It will also drive efforts to build momentum on climate action and creating internal awareness.

## Reporting oversight

Members of the committee were involved in the development and approval of the Capricorn Group material matters, as set out on page 42. The committee had oversight of the non-financial key performance indicators that are linked to the material matters and was involved in the process of reviewing and recommending the integrated report for approval to the board.

## Compliance statement

The committee believes the group has maintained an acceptable balance between its financial performance and its social, economic, governance, employment and environmental responsibilities. There were no substantive areas of non-compliance with legislation and regulation, nor was there any non-adherence with codes of best practice applicable to the areas within the committee's mandate that were brought to the committee's attention for the financial year. The committee has no reason to believe that any such non-compliance or non-adherence has occurred.

The committee is satisfied that it fulfilled its responsibilities in accordance with its terms of reference for the financial year.

**Gida Nakazibwe-Sekandi**

*Chairperson: sustainability and ethics committee*
4 September 2018

# 10 ABOUT THIS REPORT

This is the third Capricorn Group integrated report: a reflection on the value created by the group during the financial year of 1 July 2017 to 30 June 2018. The report is primarily aimed at providers of financial capital, but takes a holistic and stakeholder-orientated view of the social, environmental and governance aspects related to the group's activities and performance.

The financial and non-financial information contained in this report relates to the entities that constitute the group, as set out on page 24. 94% of net profit after tax was derived from Namibia in the financial year, with reporting priority given to Bank Windhoek as the most significant contributor to the group.

The principle of materiality guided the content of this report (read more about this on page 38), with additional information targeted at a wider audience that includes shareholders, investors, analysts and media, which is available online as part of the full suite of financial reporting elements:

| Element | Availability | Reporting dates |
|---|---|---|
| Investor presentation | www.capricorn.com.na/investor-relations | 24 August 2018 |
| Integrated annual report | Printed report on request from investorrelations@capricorn.com.na and online at www.capricorn/com.na/investor-relations | 28 September 2018 |
| Interim results | www.capricorn/com.na/investor-relations | Annually in February |
| Trading updates and NSX NENS announcements | www.capricorn/com.na/investor-relations | Continuously as required |

Due to the nature of the integrated report and the availability of information in different formats and channels, the board elected not to publish a summary of this report as proposed by the NamCode. For more information or feedback on this report or any of the other reports listed in this section, please contact Marc Backhaus on investorrelations@capricorn.com.na or +264 (61) 299 1281.

## Reporting frameworks

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

- NamCode
- Namibian Companies Act, 28 of 2004
- NSX Listing Requirements
- International Financial Reporting Standards (IFRS)
- Namibia Banking Institutions Act, 2 of 1998
- Botswana Banking Act, 2 of 1995
- Zambia Banking and Financial Services Act, 7 of 2017

Capricorn Group has chosen to be guided in its reporting by the following:

| | |
|---|---|
| The International Integrated Reporting Council (IIRC) <IR> Framework | The <IR> Framework recommends principles and concepts that are focused on bringing greater cohesion and efficiency to the reporting process, and adopting "integrated thinking" as a way of breaking down internal silos and reducing duplication. It improves the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital. Its focus on value creation, and the "capitals" used by the business to create value over time, contributes towards a more financially stable global economy. |
| Capricorn Group considers the GRI Standards in its sustainability reporting | GRI's Sustainability Reporting Standards provide the world's most widely used standards on sustainability reporting and disclosure, thereby enabling businesses, governments, civil society and citizens to make better decisions based on information that matters. |
| Capricorn Group is a signatory to the United Nations Global Compact (UNGC) | The UNGC is the world's largest corporate sustainability initiative and encourages businesses to adopt sustainable and socially responsible policies, and to report on their implementation. The UNGC is a principles-based framework for businesses that sets out ten principles in the areas of human rights, labour, the environment and anti-corruption. |
| Capricorn Group's social and environmental intent is informed by the Sustainable Development Goals | The Sustainable Development Goals are a collection of 17 global goals set by the United Nations. The broad goals are interrelated and cover a broad range of social and economic development issues. |
| Capricorn Group supports Namibia's Harambee Prosperity Plan and the National Development Plan (NDP5) | The Harambee Prosperity Plan 2016/17–2019/20 is the Namibian government's Action Plan towards Prosperity for All. It is a targeted action plan to accelerate development in clearly defined priority areas, which lay the basis for attaining prosperity in Namibia. The plan does not replace but instead complements the long-term goal of the National Development Plans (NDPs) and Vision 2030. The NDP5 aims to accelerate inclusive and equitable growth over the period 2017 to 2022. Investments will be focused on research and development, skills development, diversification of economic activities and greater value addition. |
| Capricorn Group measures its transformation progress against the Namibian Financial Sector Charter (NFSC) | According to the Namibia Financial Sector Strategy: 2011–2021 (NFSS), the NFSC, which is a voluntary charter, defines the sector's transformation priorities. The outcome of the proposed reform areas should result in a developed and modern financial system for Namibia. The NFSS and charter agendas are aligned with the NDPs. |

# CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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# 11 CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

## STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

for the year ended 30 June 2018

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

To enable the directors to meet these responsibilities:

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

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

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

The financial statements presented on pages 118 to 252 have been prepared in accordance with the provisions of the Namibian Companies Act and comply with International Financial Reporting Standards (IFRS).

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

The financial statements have been audited by the independent auditing firm, PricewaterhouseCoopers, who was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditor during the audit were valid and appropriate. The independent auditor's report is presented on page 111 to 117.

The financial statements, set out on pages 118 to 252, were authorised and approved for issue by the board of directors on 4 September 2018 and are signed on their behalf:

**J J Swanepoel**
*Group chairman*

**M J Prinsloo**
*Group managing director*

# INDEPENDENT AUDITOR'S REPORT

to the members of Capricorn Investment Group Limited

**REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**

## Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Capricorn Investment Group Limited (the company) and its subsidiaries (together the group) as at 30 June 2018, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Namibia.

**What we have audited**

Capricorn Investment Group Limited's consolidated and separate financial statements, set out on pages 118 to 252, comprise:

- the directors' report for the year ended 30 June 2018;
- the consolidated and separate statements of financial position as at 30 June 2018;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated annual financial statements, which include a summary of significant accounting policies.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report.

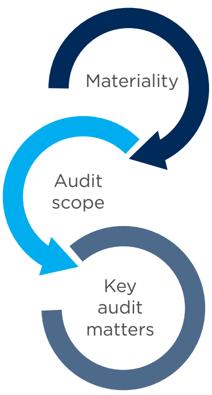
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We are independent of the group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) and other independence requirements applicable to performing audits of financial statements in Namibia.
We have fulfilled our other ethical responsibilities in accordance with this code and in accordance with other ethical requirements applicable to performing audits in Namibia.

## Our audit approach

**Overview**




**Overall group materiality**

- N$62,625,050 which represents 5 % of profit before tax.

**Group audit scope**

- The group audit scope included the audit of Capricorn Investment Group Limited and its subsidiaries, the only significant entities being Bank Windhoek Ltd, Entrepo Holdings Ltd, Cavmont Capital Holdings Zambia PLC and Capricorn Investment Holdings (Botswana) Ltd.

**Key audit matter**

- Impairment of loans and advances to customers
- Disclosure of the estimated impact of IFRS 9 Financial Instruments

# Independent auditor's report (continued)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; e.g. in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

**Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

| | |
|---|---|
| ***Overall group materiality*** | *N$62,625,050* |
| ***How we determined it*** | *5% of profit before tax* |
| ***Rationale for the materiality benchmark applied*** | *We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.* |

**How we tailored our group audit scope**

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

Our scoping assessment for group reporting purposes included consideration of financially significant components identified based on indicators such as contribution to profit before tax or total asset value of the group. The significant components identified included Bank Windhoek Ltd, Entrepo Holdings Ltd, Cavmont Capital Holdings Zambia PLC and Capricorn Investment Holdings (Botswana) Ltd. These entities were subjected to a full scope audit.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by component auditors from other PwC network firms, operating under our instruction, in order to issue our audit opinion on the consolidated financial statements of the group. Where the work was performed by component auditors, we determined the level of involvement necessary in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the group financial statements as a whole.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# Independent auditor's report (continued)

The key audit matters described below apply to the consolidated financial statements of the group. We have determined that there are no key audit matters in respect of the separate financial statements of the company to communicate in our report.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment of loans and advances to customers Refer to notes 2.4.1, 3.2.3, 4 and 17 to the annual financial statements)***<br>As at 30 June 2018, specific impairment allowances of N$258,4 million, and portfolio impairment allowances of N$108,2 million were recorded against gross loans and advances to customers of N$36.6 billion. The calculation of the credit impairment for loans and advances was considered a matter of most significance to the audit as the estimate for credit impairment for loans and advances is complex, subjective and requires significant judgement by management.<br><br>Impairment losses are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to profit or loss. The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment allowance accounts.<br><br>The group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss has been recognised, are not included in a collective assessment of impairment. | Our audit included considering the appropriateness of accounting policies and assessing management's loan impairment methodology in order to compare these with the requirements of IAS 39 *Financial Instruments*: *Recognition and Measurement*. We found the methodology applied by management to be in accordance with the requirements of IAS 39's incurred loss model. |

# Independent auditor's report (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Individually assessed loans and advances (Specific impairments)***<br>Management assessed all loans and advances on a case-by-case basis at the reporting date for objective evidence that the loans were impaired. Loans and advances that were flagged as past due for longer than 90 days were individually assessed for impairment. Management determined impairment losses for those loans where objective evidence of impairment exists. Impairment losses are determined considering the aggregate exposure to the client, the realisable value of security (or other credit mitigants) and the likelihood of successful repossession of collateral for those loans where objective evidence of impairment was identified. | **Specific impairment**<br>• We evaluated management's process for identifying specific impairments on individual loans and advances based on considerations of IAS 39 and found it to be reasonable.<br>• We obtained an understanding of, and tested, the relevant internal controls over the specific impairment of loans and advances which included controls over the valuation and recoverability of collateral.<br>• In order to determine the reasonability of the Group's specific impairment, we:<br>– Independently calculated the impairment, with the assistance of our valuation experts, considering all accounts more than 90 days past due which were not considered to be well collateralised;<br>– Independently calculated the impairment raised on the excluded accounts considering collateral in place.<br>– Compared the total specific impairment independently calculated to management's calculation and found management's calculation to be materially consistent with our expectations.<br>• For a sample of loans excluded from the impairment, we inspected legal agreements and supporting documentation to confirm existence and legal right to collateral. We found no exceptions from our testing.<br>• To assess the completeness and accuracy of the underlying data used in developing our expectation, we:<br>– Selected a sample from all loans and advances and inspected underlying loan agreements and supporting documentation to confirm existence and terms of agreements;<br>– We re-performed the aging of a sample of advances and found no exceptions. |
| ***Collectively assessed loans and advances (Portfolio impairment)***<br>Individually assessed loans for which no evidence of loss was specifically identified on an individual basis were grouped together according to their credit risk characteristics for the purpose of calculating an estimated portfolio impairment. The calculation was based on the incurred but not reported ("IBNR") model, which takes into account that it may take a period of time before management becomes aware of objective evidence that a loan is impaired. For purposes of portfolio impairment management estimated impairment for loans and advances where a loss event had occurred, but had not yet been identified.<br><br>Management estimated portfolio impairments based on an analysis of historical data relating to probability of default, emergence period and loss given default. | **Portfolio impairment**<br>We assessed the appropriateness of the model used by the group with the assistance of our valuation experts by performing, among others, the following procedures:<br>• We compared the emergence period to industry norms. We found the emergence period used by management to be consistent with industry norms.<br>• For the period of time required for an account that experienced a credit event to either cure or default, we compared the average time for an incurred credit loss event to reach a conclusion to industry norms and the period from historical data. The period was found to be comparable to industry norms.<br>• We independently re-performed the group's impairment calculation using Probability of Default and Loss Given Default rates determined by management. We found no material differences between our independently re-performed calculation and management's calculation.<br>• We independently calculated Probabilities of Default and Roll Rates (the probability of an account which does not currently show evidence of impairment moving into arrears over the emergence period) based on industry best practice methods and historical data and compared them to the rates used by management. We found the Probabilities of Default and Roll Rates used by management to be reasonable.<br>• We independently recalculated the Loss Given Default rates based on industry best practice methods and historical data. Trends and changes in portfolio risk were also investigated and allowed for. We found the Loss Given Defaults used by management to be within reasonable ranges.<br>• We compared the portfolio provision expressed as a percentage of gross loans and advances to publicly available information about the industry in the region. We found the portfolio provision expressed as a percentage of loans and advances to be reasonable based on the available information about the banking industry. |

# Independent auditor's report (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Disclosure of the estimated impact of IFRS 9 Financial Instruments (Refer to note 1.3.2)***<br>When an entity has not applied a new International Financial Reporting Standard (IFRS) that has been issued but is not yet effective, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8) requires the entity to disclose:<br>• this fact; and<br>• known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.<br><br>In the current year, these disclosures include a discussion of the impact that the initial application of IFRS 9 Financial Instruments (IFRS 9) is expected to have on the Group's financial statements. IFRS 9 became effective for financial periods beginning on or after 1 January 2018. Under the new standard impairments are determined based on an expected credit loss (ECL) model rather than the incurred loss model used under IAS 39. The expected date of adoption of IFRS 9 by the group is 1 July 2018.<br><br>In determining the classification and measurement of financial instruments management has considered their business model for managing the financial instruments and their contractual cash flow characteristics.<br><br>During the 2018 financial year, management finalised the development, building and testing of the IFRS 9 impairment models to ensure the group is ready to implement IFRS 9 when it becomes effective for the year ending 30 June 2019. As part of the group's IFRS 9 transition project, management tested the group's readiness for the transition to IFRS 9 whereby the group's impairment loss was recalculated using impairment models that will be applied when IFRS 9 is effective.<br><br>Given management's focus on preparing for the IFRS 9 transition, significant audit effort was required of us in the current year in order to understand and test the systems and models used by management in anticipation of IFRS 9, which supports our evaluation of the disclosures that management have provided to meet the requirements of IAS 8. Accordingly, this disclosure has been identified as a matter of importance to our audit of the current year's financial statements. | In evaluating the required disclosures of the impact of the adoption of IFRS 9, we considered, and where necessary (as described below) tested the governance over the project, the implementation of the necessary systems, processes, methodologies and controls by the group.<br><br>We considered the disclosures made with regard to the impact that IFRS 9's classification and measurement requirements are expected to have on the Group's reserves as at 1 July 2018 by assessing the business model and contractual cash flows of a representative sample of financial assets, in order to determine whether we agreed with management's proposed classification and measurement of these instruments. We did not identify any material exceptions.<br><br>We assessed managements IFRS 9 impairment models by performing procedures normally performed when auditing credit impairment models, which included:<br>• considering governance over model developing;<br>• evaluating key judgements;<br>• involvement of experts; and<br>• test of controls.<br><br>Based on the work that we performed, we found the amounts presented as the expected impact on the group's reserves as at 30 June 2018 to be within a reasonable range.<br><br>For the remainder of disclosures made in relation to IFRS 9, we considered these in relation to our understanding of the decisions made by management as part of the group's implementation project. We found disclosures made by management to be consistent with our understanding of the disclosure requirements of IAS 8. |

## Other information

The directors are responsible for the other information. The other information comprises the information included in the *Capricorn Group 2018 Integrated Annual Report*. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

# Independent auditor's report (continued)

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Namibia, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and/or the company or to cease operations, or has no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or company to cease to continue as a going concern.

# Independent auditor's report (continued)

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is R. Nangula Uaandja.

PricewaterhouseCoopers

**PricewaterhouseCoopers**
Chartered Accountants (Namibia)
Registered Accountants and Auditors

Per: R. Nangula Uaandja
Partner

**Windhoek**
4 September 2018

# DIRECTORS' REPORT
for the year ended 30 June 2018

The directors herewith submit their report with the annual financial statements of Capricorn Investment Group Ltd (Capricorn Group or the company) for the year ended 30 June 2018.

**1. GENERAL REVIEW**

Capricorn Group is a Namibian registered holding company and has been listed on the Namibian Stock Exchange (NSX) since 20 June 2013. Its investments comprised 100% shareholdings in Bank Windhoek Ltd, Capricorn Asset Management (Pty) Ltd, Capricorn Unit Trust Management Company Ltd, Mukumbi Investments Ltd, Capricorn Capital (Pty) Ltd and Namib Bou (Pty) Ltd, and an effective 97.9% shareholding in Cavmont Capital Holdings Zambia Plc, throughout the year under review. The company has 29.5% shareholding in Sanlam Namibia Holdings (Pty) Ltd and 28% in Santam Namibia Ltd.

During the year under review the company acquired a 55.5% shareholding in Entrepo Holdings (Pty) Ltd and a 18.3% shareholding in Nimbus Infrastructure Ltd and increased its shareholding in Capricorn Investment Holdings (Botswana) Ltd from 68.7% to 84.3%. Furthermore, a 100% held South African subsidiary was established, Capricorn Investment Group (Pty) Ltd.

**2. BUSINESS ACTIVITIES**

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

**Subsidiaries:**

- Bank Windhoek Ltd (BW)
  - Banking
- Namib Bou (Pty) Ltd
  - Property development and property valuation
- Capricorn Unit Trust Management Company Ltd (CUTM)
  - Unit trust management
- Capricorn Asset Management (Pty) Ltd (CAM)
  - Asset management
- Capricorn Group Employee Share Ownership Trust
  - Special purpose entity for share incentive scheme
- Capricorn Group Employee Share Benefit Trust
  - Special purpose entity for share incentive scheme
- Capricorn Investment Holdings (Botswana) Ltd (CIHB)
  - Investment holding company
- Cavmont Capital Holdings Zambia Plc (CCHZ)
  - Investment holding company
- Capricorn Capital (Pty) Ltd (CAP)
  - Financial consultancy
- Mukumbi Investments Ltd (Mukumbi)
  - Investment holding company
- Entrepo Holdings (Pty) Ltd (Entrepo)
  - Investment holding company
- Capricorn Investment Group (Pty) Ltd
  - Group support services

**Subsidiaries of Bank Windhoek Ltd:**

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

# Directors' report (continued)

**2. BUSINESS ACTIVITIES (continued)**

**Subsidiaries of Capricorn Investment Holdings (Botswana) Ltd:**

- Bank Gaborone Ltd (BG)
  - Banking
- BG Insurance Agency (Pty) Ltd (subsidiary of BG)
  - Insurance
- Penrich Employee Benefits (Pty) Ltd (PEB)
  - Microlending
- Peo Micro (Pty) Ltd
  - Microlending
- Capricorn Asset Management (Botswana) (Pty) Ltd
  - Asset management

**Subsidiary of Cavmont Capital Holdings Zambia Plc:**

- Cavmont Bank Ltd (CB)
  - Banking

**Subsidiaries of Entrepo Holdings (Pty) Ltd**

- Entrepo Finance (Pty) Ltd
  - Microlending
- Entrepo Life Ltd
  - Insurance company

**Associates:**

- Sanlam Namibia Holdings (Pty) Ltd
  - Long-term insurance
- Santam Namibia Ltd
  - Short-term insurance
- Nimbus Infrastructure Ltd
  - Special purpose acquisition company for infrastructure development

**Joint arrangement of Bank Windhoek Ltd**

- Namclear (Pty) Ltd
  - Payment clearing services

**Registered address of Capricorn Investment Group Ltd:**

6th floor
Capricorn Group Building
Kasino Street
Windhoek
Namibia

**Company registration number:** 96/300

**Country of incorporation:** Republic of Namibia

# Directors' report (continued)

## 3. FINANCIAL RESULTS AND DIVIDENDS

The directors report that the group's net profit after taxation from the above business activities for the year ended 30 June 2018 amounted to:

| | 2018 N$'000 | 2017 N$'000 |
|---|---|---|
| **Profit for the year** | **934,435** | 917,621 |

Normal dividends of N$351,5 million (2017: N$333,5 million) were declared and paid by the company during the year under review. Refer to note 36 of the consolidated annual financial statements for details on dividends per share.

Full details of the financial results of the company and the group are set out on pages 123 to 252.

## 4. SHARE CAPITAL

### 4.1 Ordinary shares

The company's authorised share capital is 600,000,000 ordinary shares of 2,5 cents each.

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

### 4.2 Preference shares

The company has 1,000,000 authorised preference shares of 1 cent each.

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

### 4.3 Share analysis – ordinary shares

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

| | 2018 % | 2017 % |
|---|---|---|
| Capricorn Investment Holdings Ltd | **41.0** | 40.7 |
| Government Institutions Pension Fund | **25.9** | 26.0 |
| Nam-mic Financial Services Holdings (Pty) Ltd | **10.2** | 9.9 |
| Held by the public (98,845,448 number of ordinary shares (2017: 98,861,577)) | **19.0** | 19.1 |
| Held by other non-public shareholders | **3.9** | 4.3 |
| – Directors and executive managements' direct and indirect shareholding other than companies mentioned above (10,310,637 ordinary shares (2017: 10,396,297)) | **2.0** | 2.0 |
| – Capricorn Group Employee Share Ownership Trust (6,753,334 ordinary shares (2017: 8,383,138)) | **1.3** | 1.6 |
| – Capricorn Group Employee Share Benefit Trust (3,420,000 ordinary shares (2017: 3,420,000)) | **0.6** | 0.7 |

### 4.4 Share analysis – preference shares

| | 2018 % | 2017 % |
|---|---|---|
| Santam Namibia Ltd | **4.8** | 100 |
| Standard Bank Namibia Nominees (Pty) Ltd (on behalf of Capricorn Corporate Fund) | **19.0** | – |
| Capricorn Investment Holdings Ltd | **76.2** | – |

# Directors' report (continued)

**4. SHARE CAPITAL (continued)**

**4.5 Share incentive plans**

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

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

**4.6 Directors' interest in company shares**

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

**5. SUBSIDIARIES**

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

**6. ASSOCIATES**

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

**7. JOINT ARRANGEMENTS**

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

**8. INSURANCE**

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

**9. MANAGEMENT BY THIRD PARTY**

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

**10. DIRECTORS AND COMPANY SECRETARY**

The Capricorn Group board composition during the year was as follows:

| Non-executive | | Nationality | Date appointed | Date resigned |
|---|---|---|---|---|
| J J Swanepoel | Chairman | Namibian | 1 July 1999 | |
| J C Brandt | | Namibian | 5 September 1996 | |
| K B Black | | Namibian | 13 June 2007 | |
| G Nakazibwe-Sekandi | | Ugandan | 30 November 2004 | |
| J M Shaetonhodi | | Namibian | 1 November 2006 | 24 August 2018 |
| M K Shikongo | | Namibian | 27 November 2001 | |
| E M Schimming-Chase | | Namibian | 4 March 2013 | |
| F J du Toit | | South African | 28 March 2013 | 31 October 2017 |

# Directors' report (continued)

## 10. DIRECTORS AND COMPANY SECRETARY (continued)

| Non-executive | | Nationality | Date appointed | Date resigned |
|---|---|---|---|---|
| D G Fourie | | Namibian | 29 October 2015 | |
| D J Reyneke | | South African | 19 May 2017 | |
| M Gaomab II | | Namibian | 20 August 2018 | |
| **Executive** | | | | |
| M J Prinsloo | Group managing director | South African | 14 March 2013 | |
| J J Esterhuyse | Financial director | South African | 1 September 2018 | |

At the annual general meeting held on 31 October 2017, Messrs Black, Shaetonhodi and Swanepoel were unanimously re-elected as directors. All directors appointed since a previous annual general meeting have to be confirmed at the next annual general meeting.

The authorised but unissued number of ordinary and preference shares of the company subject to the provisions of sections 229 and 230 of the Namibian Companies Act and approval of the Namibian Stock Exchange, are under the control of the directors of Capricorn Group. This authority expires at the forthcoming annual general meeting on 30 October 2018, when this authority can be renewed.

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

Capricorn Group Building
Kasino Street
Windhoek
Namibia

PO Box 15
Windhoek
Namibia

## 11. DIRECTORS' INTERESTS

The directors' interests are reflected in the corporate governance report.

## 12. AUDITOR

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

## 13. EVENTS SUBSEQUENT TO YEAR-END

(i) On 21 August 2018 a final dividend of 30 cents per ordinary share was declared for the year ended 30 June 2018, payable on 19 September 2018.
(ii) On 13 July 2018 Nimbus Infrastructure Limited offered qualifying shareholders new ordinary shares at N$10.50 per share in a rights issue. The shareholders qualified to receive fifteen shares for every ten shares held. The Capricorn Group exercised all its rights at a cost of N$54.3 million. The percentage of shares held in Nimbus increased from 18.3% to 30.0% as a result of the rights issue.
(iii) Capricorn Group is in discussions with a financial institution to raise long-term funding of up to N$650 million. This transaction has been approved by the board, subject to the finalisation of the contractual requirements. N$290 million is to replace funding already reflected on the balance sheet, with the remainder funding group operations.

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

# CONSOLIDATED AND SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 30 June 2018

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| Interest and similar income | | **4,244,215** | 3,626,477 | **68,351** | 9,839 |
| Interest and similar expenses | | **(2,425,318)** | (1,976,980) | **(76,019)** | (16,184) |
| **Net interest income** | 5 | **1,818,897** | 1,649,497 | **(7,668)** | (6,345) |
| Impairment charges on loans and advances | 6 | **(80,840)** | (57,998) | **–** | – |
| **Net interest income after loan impairment charges** | | **1,738,057** | 1,591,499 | **(7,668)** | (6,345) |
| Non-interest income | 7 | **1,225,168** | 998,185 | **492,447** | 348,635 |
| **Operating income** | | **2,963,225** | 2,589,684 | **484,779** | 342,290 |
| Operating expenses | 9 | **(1,795,108)** | (1,395,005) | **(97,899)** | (83,926) |
| **Operating profit** | | **1,168,117** | 1,194,679 | **386,880** | 258,364 |
| Share of joint arrangement's results after tax | 21 | **1,148** | 1,094 | **–** | – |
| Share of associates' results after tax | 10 | **83,236** | 78,100 | **–** | – |
| **Profit before income tax** | | **1,252,501** | 1,273,873 | **386,880** | 258,364 |
| Income tax expense | 11 | **(318,066)** | (356,252) | **6,245** | – |
| **Profit for the year** | | **934,435** | 917,621 | **393,125** | 258,364 |
| | | | | | |
| **Other comprehensive income** | | | | | |
| *Items that may be reclassified to profit or loss* | | | | | |
| Change in value of available-for-sale financial assets | 15 | **44,026** | 15,383 | **–** | – |
| Exchange differences on translation of foreign operations | | **7,779** | (1,949) | **–** | – |
| **Total comprehensive income for the year** | | **986,240** | 931,055 | **393,125** | 258,364 |
| | | | | | |
| **Profit attributable to:** | | | | | |
| Equity holders of the parent entity | | **922,556** | 909,429 | **393,125** | 258,364 |
| Non-controlling interests | | **11,879** | 8,192 | **–** | – |
| | | **934,435** | 917,621 | **393,125** | 258,364 |
| | | | | | |
| **Total comprehensive income attributable to:** | | | | | |
| Equity holders of the parent entity (total) | | **974,259** | 923,939 | **393,125** | 258,364 |
| Non-controlling interests (total) | | **11,981** | 7,116 | **–** | – |
| | | **986,240** | 931,055 | **393,125** | 258,364 |
| | | | | | |
| Earnings per ordinary share for the profit attributable to the equity holders of the parent entity during the year: | | | | | |
| Basic (cents) | 12 | **180.6** | 180.4 | | |
| Fully diluted (cents) | 12 | **180.3** | 180.0 | | |

# CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

as at 30 June 2018

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| **ASSETS** | | | | | |
| Cash and balances with the central bank | 13 | **1,642,557** | 1,543,070 | **104,123** | 140,643 |
| Financial assets designated at fair value through profit or loss | 14 | **5,245,981** | 3,968,635 | **553,173** | 506,007 |
| Financial assets at amortised cost | 14 | **874,252** | 299,687 | **202,060** | 200,411 |
| Investment securities | 15 | **134,028** | 149,381 | **–** | – |
| Due from other banks | 16 | **1,773,529** | 2,198,596 | **–** | – |
| Loans and advances to customers | 17 | **36,234,418** | 33,433,922 | **–** | – |
| Other assets | 18 | **612,470** | 450,265 | **123,446** | 32,526 |
| Current tax asset | | **62,722** | 72,420 | **1,558** | 685 |
| Investment in subsidiaries | 19 | **–** | – | **1,523,700** | 1,202,003 |
| Investment in associates | 20 | **282,511** | 245,782 | **144,656** | 110,195 |
| Interest in joint arrangements | 21 | **7,341** | 6,193 | **–** | – |
| Intangible assets | 22 | **283,933** | 291,680 | **–** | – |
| Property, plant and equipment | 23 | **238,446** | 232,808 | **–** | – |
| Deferred tax asset | 29 | **41,498** | 28,475 | **6,245** | – |
| **Total assets** | | **47,433,686** | 42,920,914 | **2,658,961** | 2,192,470 |
| **LIABILITIES** | | | | | |
| Due to other banks | 24 | **252,683** | 317,914 | **–** | – |
| Other borrowings | 25 | **1,313,433** | 1,165,064 | **95,923** | – |
| Debt securities in issue | 26 | **4,777,074** | 4,105,577 | **1,038,272** | 932,469 |
| Deposits | 27 | **33,948,091** | 31,571,561 | **–** | – |
| Other liabilities | 28 | **1,232,189** | 535,044 | **217,227** | 37,126 |
| Current tax liability | | **381** | 640 | **–** | – |
| Deferred tax liability | 29 | **7,205** | 4,008 | **–** | – |
| Post-employment benefits | 30 | **11,440** | 10,191 | **–** | – |
| **Total liabilities** | | **41,542,496** | 37,709,999 | **1,351,422** | 969,595 |
| **EQUITY** | | | | | |
| Share capital and premium | 31 | **724,507** | 684,665 | **769,933** | 727,264 |
| Non-distributable reserves | 34 | **269,653** | 248,186 | **–** | – |
| Distributable reserves | 35 | **4,620,531** | 4,123,531 | **537,606** | 495,611 |
| | | **5,614,691** | 5,056,382 | **1,307,539** | 1,222,875 |
| Non-controlling interests in equity | | **276,499** | 154,533 | **–** | – |
| **Total shareholders' equity** | | **5,891,190** | 5,210,915 | **1,307,539** | 1,222,875 |
| **Total equity and liabilities** | | **47,433,686** | 42,920,914 | **2,658,961** | 2,192,470 |

# CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2018

| | | | Non-distributable reserves | | Distributable reserves | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Share capital and premium | Insurance fund reserve | Credit risk reserve | SBCR* | Fair value reserve | General banking reserve | FCTR** | Retained earnings | Non-controlling interests | Total equity |
| | Notes | N$'000 | N$'000 | N$'000 | N$'000 | N$'000 | N$'000 | N$'000 | N$'000 | N$'000 | N$'000 |
| **GROUP** | | | | | | | | | | | |
| Balance at 1 July 2016 | | 512,045 | 27,773 | 185,261 | 13,290 | 129,782 | 2,764,277 | – | 641,611 | – | 4,274,039 |
| Issue of shares | 31 | 197,172 | – | – | – | – | – | – | – | – | 197,172 |
| Movement in treasury shares | | (30,674) | – | – | – | – | – | – | – | – | (30,674) |
| Total comprehensive income for the year | | – | – | – | – | 15,383 | – | (873) | 909,429 | 7,116 | 931,055 |
| Profit for the year | | – | – | – | – | – | – | – | 909,429 | 8,192 | 917,621 |
| Other comprehensive income | | – | – | – | – | 15,383 | – | (873) | – | (1,076) | 13,434 |
| Share-based payment charges | 35 | – | – | – | 9,126 | – | – | – | – | – | 9,126 |
| Vesting of shares | | 6,122 | – | – | (6,122) | – | – | – | – | – | – |
| Profit on sale of treasury shares | | – | – | – | – | – | – | – | 269 | – | 269 |
| Transfer between reserves | | – | 22,763 | 12,389 | – | – | 590,332 | – | (625,484) | – | – |
| Acquisition of subsidiaries | | – | – | – | – | – | – | – | 14,668 | 165,183 | 179,851 |
| Change in ownership interest in subsidiary | | – | – | – | – | – | – | – | (2,641) | (17,766) | (20,407) |
| Dividends | 36 | – | – | – | – | – | – | – | (329,516) | – | (329,516) |
| **Balance at 30 June 2017** | | 684,665 | 50,536 | 197,650 | 16,294 | 145,165 | 3,354,609 | (873) | 608,336 | 154,533 | 5,210,915 |
| Balance at 1 July 2017 | | **684,665** | **50,536** | **197,650** | **16,294** | **145,165** | **3,354,609** | **(873)** | **608,336** | **154,533** | **5,210,915** |
| Issue of shares | 31 | **41,508** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **41,508** |
| Movement in treasury shares | | **(10,034)** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(10,034)** |
| Total comprehensive income for the year | | **–** | **–** | **–** | **–** | **44,026** | **–** | **7,677** | **922,556** | **11,981** | **986,240** |
| Profit for the year | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **922,556** | **11,879** | **934,435** |
| Other comprehensive income | | **–** | **–** | **–** | **–** | **44,026** | **–** | **7,677** | **–** | **102** | **51,805** |
| Share-based payment charges | 35 | **–** | **–** | **–** | **8,921** | **–** | **–** | **–** | **–** | **–** | **8,921** |
| Vesting of shares | | **8,368** | **–** | **–** | **(8,368)** | **–** | **–** | **–** | **–** | **–** | **–** |
| Profit on sale of treasury shares | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **2,690** | **–** | **2,690** |
| Transfer between reserves | | **–** | **3,206** | **18,261** | **–** | **–** | **460,270** | **–** | **(481,737)** | **–** | **–** |
| Reclassification to profit and loss | | **–** | **–** | **–** | **–** | **(59,380)** | **–** | **–** | **–** | **–** | **(59,380)** |
| Acquisition of subsidiaries | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **142,338** | **142,338** |
| Change in ownership interest in subsidiary | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(50,643)** | **(32,373)** | **(83,016)** |
| Transfer of FCTR | | **–** | **–** | **–** | **–** | **–** | **–** | **(2,268)** | **–** | **2,268** | **–** |
| Dividends | 36 | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(346,744)** | **(2,248)** | **(348,992)** |
| **Balance at 30 June 2018** | | **724,507** | **53,742** | **215,911** | **16,847** | **129,811** | **3,814,879** | **4,536** | **654,458** | **276,499** | **5,891,190** |

# Consolidated and separate statements of changes in equity (continued)

| | | Non-distributable reserves | | | Distributable reserves | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Share capital and premium | Insurance fund reserve | Credit risk reserve | SBCR* | Fair value reserve | General banking reserve | FCTR** | Retained earnings | Non-controlling interests | Total equity |
| | Notes | N$'000 | N$'000 | N$'000 | N$'000 | N$'000 | N$'000 | N$'000 | N$'000 | N$'000 | N$'000 |
| **COMPANY** | | | | | | | | | | | |
| Balance at 1 July 2016 | | 532,206 | – | – | 8,166 | – | – | – | 560,439 | – | 1,100,811 |
| Issue of shares | | 197,172 | – | – | – | – | – | – | – | – | 197,172 |
| Movement in treasury shares | | (3,250) | – | – | – | – | – | – | – | – | (3,250) |
| Share-based payment charges | 35 | – | – | – | 3,263 | – | – | – | – | – | 3,263 |
| Vesting of shares | | 1,136 | – | – | (1,136) | – | – | – | – | – | – |
| Total comprehensive income for the year | | – | – | – | – | – | – | – | 258,364 | – | 258,364 |
| Dividends | 36 | – | – | – | – | – | – | – | (333,485) | – | (333,485) |
| **Balance at 30 June 2017** | | 727,264 | – | – | 10,293 | – | – | – | 485,318 | – | 1,222,875 |
| Balance at 1 July 2017 | | **727,264** | **–** | **–** | **10,293** | **–** | **–** | **–** | **485,318** | **–** | **1,222,875** |
| Issue of shares | 31 | **41,508** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **41,508** |
| Movement in treasury shares | | **(842)** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(842)** |
| Share-based payment charges | 35 | **–** | **–** | **–** | **2,350** | **–** | **–** | **–** | **–** | **–** | **2,350** |
| Vesting of shares | | **2,003** | **–** | **–** | **(2,003)** | **–** | **–** | **–** | **–** | **–** | **–** |
| Total comprehensive income for the year | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **393,125** | **–** | **393,125** |
| Dividends | 36 | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(351,477)** | **–** | **(351,477)** |
| **Balance at 30 June 2018** | | **769,933** | **–** | **–** | **10,640** | **–** | **–** | **–** | **526,966** | **–** | **1,307,539** |

* *Share-based compensation reserve (SBCR)*

** *Foreign currency translation reserve (FCTR)*

# CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

for the year ended 30 June 2018

| | Notes | Group 2018 N$'000 | Group 2017 N$'000 | Company 2018 N$'000 | Company 2017 N$'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash receipts from customers | 37.1 | **5,435,057** | 4,591,381 | **47,057** | 50,170 |
| Cash paid to customers, suppliers and employees | 37.2 | **(3,560,479)** | (2,859,533) | **(93,094)** | (76,637) |
| **Cash generated from/(utilised in) operations** | 37.3 | **1,874,578** | 1,731,848 | **(46,037)** | (26,467) |
| ***(Increase)/decrease in operating assets*** | | | | | |
| Financial assets designated at fair value | | **(1,082,037)** | 322,703 | **(179,227)** | (297,868) |
| Financial assets at amortised cost | | **(574,565)** | (150,954) | **11,585** | – |
| Loans and advances to customers and central bank mandatory reserve | | **(1,979,117)** | (2,568,020) | **–** | – |
| Other assets | | **(152,806)** | 149,260 | **(47,743)** | (16,656) |
| ***Increase/(decrease) in operating liabilities*** | | | | | |
| Deposits from customers | | **2,307,696** | 1,994,992 | **–** | – |
| Other liabilities | | **51,985** | (172,935) | **193,751** | (13,164) |
| **Net cash generated from/(utilised in) operations** | | **445,734** | 1,306,894 | **(67,671)** | (354,155) |
| Dividends received | | **88,951** | 101,902 | **402,918** | 277,274 |
| Other interest received | | **402** | 408 | **4,775** | 8,064 |
| Income taxes (paid)/received | 37.4 | **(316,220)** | (384,458) | **–** | 578 |
| ***Net cash generated from/(utilised in) operating activities*** | | **218,867** | 1,024,746 | **340,022** | (68,239) |
| **Cash flows from investing activities** | | | | | |
| Additions to property, plant and equipment | 23 | **(45,826)** | (63,052) | **–** | – |
| Proceeds on sale of property, plant and equipment | 37.3 | **2,192** | 1,760 | **–** | – |
| Additions to intangible assets | 22 | **(53,099)** | (71,630) | **–** | – |
| Proceeds on sale of subsidiary | 37.5 | **–** | 9,887 | **–** | 4,719 |
| Acquisition of subsidiaries | 37.6 | **(172,766)** | 1,062,658 | **(280,193)** | (48,992) |
| Acquisition of associate | | **(34,461)** | – | **(34,461)** | – |
| ***Net cash (utilised in)/generated from investing activities*** | | **(303,960)** | 939,623 | **(314,654)** | (44,273) |
| **Cash flows from financing activities** | | | | | |
| Treasury shares acquired | | **(35,153)** | (59,390) | **–** | (3,250) |
| Treasury shares sold | | **27,809** | 28,985 | **–** | – |
| Proceeds from other borrowings | 25 | **309,651** | – | **90,651** | – |
| Other borrowings coupon payments | 25 | **(294,027)** | (99,990) | **(2,454)** | – |
| Redemption of debt securities in issue | 26 | **(1,341,584)** | (473,766) | **(930,000)** | – |
| Debt securities coupon payments | 26 | **(356,761)** | (218,507) | **(70,216)** | (8,915) |
| Proceeds from the issue of debt securities | 26 | **1,993,885** | 1,907,651 | **1,030,000** | 505,781 |
| Dividends paid | 36 | **(348,992)** | (329,516) | **(351,477)** | (333,485) |
| ***Net cash (utilised in)/generated from financing activities*** | | **(45,172)** | 755,467 | **(233,496)** | 160,131 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(130,265)** | 2,719,836 | **(208,128)** | 47,619 |
| Cash and cash equivalents at the beginning of the year | | **5,291,456** | 2,571,620 | **344,223** | 296,604 |
| Effects of exchange rate changes on cash and cash equivalents | | **40,211** | – | **–** | – |
| **Cash and cash equivalents at the end of the year** | 39 | **5,201,402** | 5,291,456 | **136,095** | 344,223 |

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2018

## 1. BASIS OF PRESENTATION

The consolidated annual financial statements of Capricorn Group (the group or the company) for the year ended 30 June 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS), interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) effective at the time of preparing these statements and in the manner required by the Namibian Companies Act and the Namibian Stock Exchange. The consolidated annual financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts.

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

### 1.1 Going concern

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

### 1.2 Functional and presentation currency

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

# Notes to the consolidated annual financial statements (continued)

**1. BASIS OF PRESENTATION (CONTINUED)**

**1.3 Standards and interpretations issued**

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

| Title of standard | Nature of change | Impact | Mandatory application date/date of adoption by group |
|---|---|---|---|
| Amendments to IAS 7 – “Cash Flow Statements” | In January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.<br><br>The amendment responds to requests from investors for information that helps them better understand changes in an entity’s debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities. | The group assessed the amendment’s impact and concluded that it will only impact the disclosure in the group’s annual financial statements. The group’s current disclosure is sufficient to comply with the requirements of this standard. | Mandatory for financial years commencing on or after 1 January 2017.<br><br>Adoption date by group: 1 July 2017. |
| Amendment to IAS 12 – “Income Taxes” | The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset’s tax base. It also clarifies certain other aspects of accounting for deferred tax assets.<br><br>The amendment clarifies the existing guidance under IAS 12. It does not change the underlying principles for the recognition of deferred tax assets. | The group assessed the amendment’s impact and concluded that the amendment will have no impact on the group’s annual financial statements. | Mandatory for financial years commencing on or after 1 January 2017.<br><br>Adoption date by group: 1 July 2017. |

# Notes to the consolidated annual financial statements (continued)

**1. BASIS OF PRESENTATION (CONTINUED)**

**1.3 Standards and interpretations issued (continued)**

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

| Title of standard | Nature of change | Impact | Mandatory application date/date of adoption by group |
|---|---|---|---|
| IFRS 9 – "Financial Instruments" | Details of requirements of IFRS 9 that will impact the group:<br><br>**Classification and measurement**<br>IFRS 9 requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and its contractual cash flow characteristics.<br><br>Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold these assets solely for collecting on contractual cash flows, where these contractual cash flows comprise solely payments of principal and interest.<br><br>Financial assets are measured at fair value through other comprehensive income (FVOCI) if they are held within a business model whose objective is achieved by both collecting on contractual cash flows and by selling these financial assets. Contractual cash flows should comprise solely payments of principal and interest.<br><br>The remaining financial assets, including derivatives, are measured at fair value through profit or loss (FVTPL).<br><br>For equity investments that are neither held for trading nor contingent consideration, the group may irrevocably elect to present subsequent changes in fair value of these equity investments in other comprehensive income (OCI).<br><br>Where the equity investment is derecognised, the cumulative gain or loss previously recognised in OCI is not reclassified from equity to profit or loss. However, it may be reclassified within equity. | The group has elected not to restate comparative figures, as permitted by the transitional provisions of IFRS 9.<br><br>Accordingly, any differences between previous IAS 39 and new IFRS 9 carrying amounts will be recognised in opening retained earnings and other reserves as at 1 July 2018.<br><br>**Classification and measurement**<br>The group did identify instances where the classification and measurement of financial assets changed from amortised cost to fair value and vice versa under IFRS 9. However, this is expected to have a negligible net impact on the group's reserves as at 1 July 2018.<br><br>**Impairments**<br>During 2018, the IFRS 9 implementation project progressed as follows:<br>• Finalisation of the IFRS 9 impairment framework and methodology.<br>• Finalising the development, building and testing of the IFRS 9 impairment models.<br>• Improving the IT infrastructure in order to collect suitable data for an IFRS 9 compliant model.<br><br>The group assessed the impact of IFRS 9 ECL impairment requirements resulting in an increase of between N$400 million and N$450 million in balance sheet impairments; an increase of between 109% and 123% over IAS 39 requirements. | Mandatory for financial years commencing on or after 1 January 2018.<br><br>Expected date of adoption by the group: 1 July 2018. |

# Notes to the consolidated annual financial statements (continued)

**1. BASIS OF PRESENTATION (CONTINUED)**

**1.3 Standards and interpretations issued (continued)**

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

| Title of standard | Nature of change | Impact | Mandatory application date/date of adoption by group |
|---|---|---|---|
| IFRS 9 – "Financial Instruments" (continued) | The accounting for financial liabilities remains largely unchanged.<br><br>**Impairments**<br>Under IFRS 9, impairments are determined based on an expected credit loss (ECL) model rather than the incurred loss model used under IAS 39.<br><br>The group will be required to recognise impairments for either a 12-month or lifetime ECL on all financial assets measured at amortised cost and FVOCI, depending on whether there has been a significant increase in credit risk since initial recognition of the financial asset.<br><br>Forward-looking information based on expected macroeconomic conditions and specific factors that are expected to impact individual portfolios are used when determining ECLs. | | |
| IFRS 15 – "Revenue from Contracts with Customers" | The FASB and IASB issued their long awaited converged standard on revenue recognition on 29 May 2014. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or services transfers to a customer.<br><br>The IASB has amended IFRS 15 to clarify the guidance, but there were no major changes to the standard itself. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of these areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard. | The group assessed the new standard's impact and concluded that the new standard will have a negligible impact on the group's financial statements. | Mandatory for financial years commencing on or after 1 January 2018.<br><br>Expected date of adoption by the group: 1 July 2018. |

# Notes to the consolidated annual financial statements (continued)

**1. BASIS OF PRESENTATION (CONTINUED)**

**1.3 Standards and interpretations issued (continued)**

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

| Title of standard | Nature of change | Impact | Mandatory application date/date of adoption by group |
|---|---|---|---|
| IFRS 16 – "Leases" | This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular.<br><br>Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.<br><br>For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.<br><br>At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.<br><br>IFRS 16 supersedes IAS 17, "Leases", IFRIC 4, "Determining whether an arrangement contains a lease", SIC 15, "Operating leases – incentives" and SIC 27, "Evaluating the substance of transactions involving the legal form of a lease". | The group is currently assessing the impact of the new rules. | Mandatory for financial years commencing on or after 1 January 2019.<br><br>Expected date of adoption by the group: 1 July 2019. |

# Notes to the consolidated annual financial statements (continued)

**1. BASIS OF PRESENTATION (CONTINUED)**

**1.3 Standards and interpretations issued (continued)**

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

| Title of standard | Nature of change | Impact | Mandatory application date/date of adoption by group |
|---|---|---|---|
| IFRS 17 – "Insurance Contracts" | The IASB issued IFRS 17, "Insurance Contracts", and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.<br><br>Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.<br><br>Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.<br><br>For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract. | The group is currently assessing the impact of the new rules. | Mandatory for financial years commencing on or after 1 January 2021.<br><br>Expected date of adoption by the group: 1 July 2021. |

# Notes to the consolidated annual financial statements (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these consolidated annual financial statements, which complies with International Financial Reporting Standards (IFRS) and the Companies Act of Namibia, are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**2.1 Consolidation**

*2.1.1 Subsidiaries*

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

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

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

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

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

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

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

*2.1.2 Common control transactions*

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

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

# Notes to the consolidated annual financial statements (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.1 Consolidation (continued)**

*2.1.2 Common control transactions (continued)*

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

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

*2.1.3 Changes in ownership interests in subsidiaries without change of control*

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

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

*2.1.4 Disposal of subsidiaries*

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

*2.1.5 Associates*

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

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

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

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

# Notes to the consolidated annual financial statements (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.1 Consolidation (continued)**

*2.1.5 Associates (continued)*

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

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

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

*2.1.6 Joint arrangements*

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

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

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

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

**2.2 Foreign currency translation**

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

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

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

# Notes to the consolidated annual financial statements (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 Financial instruments**

*2.3.1 Financial assets*

The group classifies its financial assets in the following categories:

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

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

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

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

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

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

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

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

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

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

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

# Notes to the consolidated annual financial statements (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 Financial instruments (continued)**

*2.3.1 Financial assets (continued)*

*(ii) Loans and receivables*

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

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

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

*(iii) Held to maturity*

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

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

Treasury bills, government stock and preference shares, not held for trading, are classified in this category.

*(iv) Available for sale*

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

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

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

Investment securities are classified in this category.

*2.3.2 Financial liabilities*

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

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

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

# Notes to the consolidated annual financial statements (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 Financial instruments (continued)**

*2.3.2 Financial liabilities (continued)*

*(i) At amortised cost*

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

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

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

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

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

This category comprises two subcategories, namely:

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

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

Classified in this category are derivative financial instruments.

*2.3.3 Determination of fair value*

Specific valuation techniques used to value financial instruments include:

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

*2.3.4 Derecognition*

The group derecognises a financial asset when:

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

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

# Notes to the consolidated annual financial statements (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 Financial instruments (continued)**

*2.3.4 Derecognition (continued)*

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

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

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

*2.3.5 Offsetting financial instruments*

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

*2.3.6 Derivative financial instruments*

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

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

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

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

# Notes to the consolidated annual financial statements (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 Impairment of financial assets**

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

*2.4.1 Financial assets carried at amortised cost*

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

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

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

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

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

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

*Impairment of loans and advances*

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

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

# Notes to the consolidated annual financial statements (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 Impairment of financial assets (continued)**

*2.4.1 Financial assets carried at amortised cost (continued)*

*(i) Individually assessed loans and advances*

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

Due from other banks have not been impaired as these placements are made to banks that have high credit standing and, by policy, limits the amounts of credit exposure to any one financial institution. Refer to note 3.2.5.

*(ii) Collectively assessed loans and advances*

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

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

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

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

*2.4.2 Financial assets carried at fair value*

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

*2.4.3 Renegotiated loans*

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

# Notes to the consolidated annual financial statements (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 Sale and repurchase agreements**

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

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

**2.6 Intangible asset**

*2.6.1 Goodwill*

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

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

*2.6.2 Computer software and development costs*

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

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

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

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

# Notes to the consolidated annual financial statements (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.6 Intangible asset (continued)**

*2.6.2 Computer software and development costs (continued)*

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

| | |
|---|---|
| Purchased software | 3 years |
| Internally generated software | 5 – 7 years |

**2.7 Property, plant and equipment**

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

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

| | |
|---|---|
| Motor vehicles | 5 years |
| Furniture, fittings and other office equipment | 6.67 – 8.3 years |
| Computer and other equipment | 3 – 5 years |
| Buildings | 24 – 50 years |

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

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

**2.8 Repossessed property**

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

**2.9 Impairment of non-financial assets**

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.10 Leases

*2.10.1 A group company is the lessee*

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

*2.10.2 A group company is the lessor*

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

### 2.11 Cash and cash equivalents

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

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

### 2.12 Provisions

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

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

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

### 2.13 Financial guarantee contracts

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

# Notes to the consolidated annual financial statements (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.13 Financial guarantee contracts (continued)**

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

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

**2.14 Employee benefits**

*2.14.1 Pension obligations*

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

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

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

*2.14.2 Severance pay provision*

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

- is dismissed (except if due to misconduct or poor performance);
- dies while employed; or
- retires upon reaching the age of 65.

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

*2.14.3 Leave pay*

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

*2.14.4 Performance bonuses*

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

# Notes to the consolidated annual financial statements (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.15 Share-based payments**

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

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

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

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

**2.16 Current and deferred income tax**

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

*2.16.1 Deferred income tax*

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

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

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

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

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

# Notes to the consolidated annual financial statements (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.16 Current and deferred income tax (continued)**

*2.16.1 Deferred income tax (continued)*

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

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

*2.16.2 Current income tax*

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

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

**2.17 Revenue recognition**

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

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

*2.17.1 Net trading income*

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

*2.17.2 Interest income and expenses*

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

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

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

# Notes to the consolidated annual financial statements (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.17 Revenue recognition (continued)**

*2.17.2 Interest income and expenses (continued)*

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

*2.17.3 Fee and commission income*

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

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

*2.17.4 Other income*

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

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

**2.18 Share capital**

*2.18.1 Share issue*

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

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

*2.18.2 Treasury shares*

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

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

# Notes to the consolidated annual financial statements (continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.19 Inventory (residential units)**

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

**2.20 Dividend distribution**

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

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

**2.21 Fiduciary activities**

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

**2.22 Operating segments**

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

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

**3. FINANCIAL RISK MANAGEMENT**

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

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

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

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

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

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

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

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

**Asset and liability committee (ALCO)**

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

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

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

**Risk committee**

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

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

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**Credit risk forum (CRF)**

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

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

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

The CRF facilitates compliance with:

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

Significant risks to which the group are exposed are discussed on the following page.

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.1 Analysis of assets and liabilities**

Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies on pages 134 to 150 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

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

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| **Group** | **Held for trading N$'000** | **Designated at fair value through profit/loss N$'000** | **Loans and receivables N$'000** | **Available-for-sale financial assets N$'000** | **Financial assets/ liabilities at amortised cost N$'000** | **Non-financial assets/ liabilities N$'000** | **Total N$'000** |
| **ASSETS** | | | | | | | |
| Cash and balances with the central bank | – | – | 1,642,557 | – | – | – | 1,642,557 |
| Financial assets designated at fair value through profit or loss | – | 5,245,981 | – | – | – | – | 5,245,981 |
| Financial assets at amortised cost | – | – | – | – | 874,252 | – | 874,252 |
| Investment securities | – | – | – | 134,028 | – | – | 134,028 |
| Due from other banks | – | – | 1,773,529 | – | – | – | 1,773,529 |
| Loans and advances to customers | – | – | 36,234,418 | – | – | – | 36,234,418 |
| Other assets | – | – | 489,326 | – | – | 123,144 | 612,470 |
| Current tax asset | – | – | – | – | – | 62,722 | 62,722 |
| Investment in associates | – | – | – | – | – | 282,511 | 282,511 |
| Interest in joint arrangements | – | – | – | – | – | 7,341 | 7,341 |
| Intangible assets | – | – | – | – | – | 283,933 | 283,933 |
| Property, plant and equipment | – | – | – | – | – | 238,446 | 238,446 |
| Deferred tax asset | – | – | – | – | – | 41,498 | 41,498 |
| **Total assets** | – | 5,245,981 | 40,139,830 | 134,028 | 874,252 | 1,039,595 | 47,433,686 |
| **LIABILITIES** | | | | | | | |
| Due to other banks | – | – | – | – | 252,683 | – | 252,683 |
| Other borrowings | – | – | – | – | 1,313,433 | – | 1,313,433 |
| Debt securities in issue | – | – | – | – | 4,777,074 | – | 4,777,074 |
| Deposits | – | – | – | – | 33,948,091 | – | 33,948,091 |
| Other liabilities | 5,535 | – | – | – | 1,198,794 | 27,860 | 1,232,189 |
| Current tax liability | – | – | – | – | – | 381 | 381 |
| Deferred tax liability | – | – | – | – | – | 7,205 | 7,205 |
| Post-employment benefits | – | – | – | – | – | 11,440 | 11,440 |
| **Total liabilities** | 5,535 | – | – | – | 41,490,075 | 46,886 | 41,542,496 |

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.1 Analysis of assets and liabilities (continued)**

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| **Company** | **Held for trading N$'000** | **Designated at fair value through profit/loss N$'000** | **Loans and receivables N$'000** | **Available-for-sale financial assets N$'000** | **Financial assets/ liabilities at amortised cost N$'000** | **Non-financial assets/ liabilities N$'000** | **Total N$'000** |
| **ASSETS** | | | | | | | |
| Cash and balances with the central bank | – | – | 104,123 | – | – | – | 104,123 |
| Financial assets designated at fair value through profit or loss | – | 553,173 | – | – | – | – | 553,173 |
| Financial assets at amortised cost | – | – | – | – | 202,060 | – | 202,060 |
| Other assets | – | – | 122,972 | – | – | 474 | 123,446 |
| Current tax asset | – | – | – | – | – | 1,558 | 1,558 |
| Investment in subsidiaries | – | – | – | – | – | 1,523,700 | 1,523,700 |
| Investment in associates | – | – | – | – | – | 144,656 | 144,656 |
| Deferred tax | | | | | | 6,245 | 6,245 |
| **Total assets** | – | 553,173 | 227,095 | – | 202,060 | 1,676,633 | 2,658,961 |
| **LIABILITIES** | | | | | | | |
| Other borrowings | – | – | – | – | 95,923 | – | 95,923 |
| Debt securities in issue | – | – | – | – | 1,038,272 | – | 1,038,272 |
| Other liabilities | – | – | – | – | 217,227 | – | 217,227 |
| **Total liabilities** | – | – | – | – | 1,351,422 | – | 1,351,422 |

# Notes to the consolidated annual financial statements (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Analysis of assets and liabilities (continued)

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| Group | Held for trading N$'000 | Designated at fair value through profit/loss N$'000 | Loans and receivables N$'000 | Available-for-sale financial assets N$'000 | Financial assets/ liabilities at amortised cost N$'000 | Non-financial assets/ liabilities N$'000 | Total N$'000 |
| **ASSETS** | | | | | | | |
| Cash and balances with the central bank | – | – | 1,543,070 | – | – | – | 1,543,070 |
| Financial assets designated at fair value through profit or loss | – | 3,968,635 | – | – | – | – | 3,968,635 |
| Financial assets at amortised cost | – | – | – | – | 299,687 | – | 299,687 |
| Investment securities | – | – | – | 149,381 | – | – | 149,381 |
| Due from other banks | – | – | 2,198,596 | – | – | – | 2,198,596 |
| Loans and advances to customers | – | – | 33,433,922 | – | – | – | 33,433,922 |
| Other assets | – | – | 350,192 | – | – | 100,073 | 450,265 |
| Current tax asset | – | – | – | – | – | 72,420 | 72,420 |
| Investment in associates | – | – | – | – | – | 245,782 | 245,782 |
| Interest in joint arrangements | – | – | – | – | – | 6,193 | 6,193 |
| Intangible assets | – | – | – | – | – | 291,680 | 291,680 |
| Property, plant and equipment | – | – | – | – | – | 232,808 | 232,808 |
| Deferred tax asset | – | – | – | – | – | 28,475 | 28,475 |
| **Total assets** | – | 3,968,635 | 37,525,780 | 149,381 | 299,687 | 977,431 | 42,920,914 |
| **LIABILITIES** | | | | | | | |
| Due to other banks | – | – | – | – | 317,914 | – | 317,914 |
| Other borrowings | – | – | – | – | 1,165,064 | – | 1,165,064 |
| Debt securities in issue | – | – | – | – | 4,105,577 | – | 4,105,577 |
| Deposits | – | – | – | – | 31,571,561 | – | 31,571,561 |
| Other liabilities | 8,622 | – | – | – | 517,176 | 9,246 | 535,044 |
| Current tax liability | – | – | – | – | – | 640 | 640 |
| Deferred tax liability | – | – | – | – | – | 4,008 | 4,008 |
| Post-employment benefits | – | – | – | – | – | 10,191 | 10,191 |
| **Total liabilities** | 8,622 | – | – | – | 37,677,292 | 24,085 | 37,709,999 |

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.1 Analysis of assets and liabilities (continued)**

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| **Company** | **Held for trading N$'000** | **Designated at fair value through profit/loss N$'000** | **Loans and receivables N$'000** | **Available-for-sale financial assets N$'000** | **Financial assets/ liabilities at amortised cost N$'000** | **Non-financial assets/ liabilities N$'000** | **Total N$'000** |
| **ASSETS** | | | | | | | |
| Cash and balances with the central bank | – | – | 140,643 | – | – | – | 140,643 |
| Financial assets designated at fair value through profit or loss | – | 506,007 | – | – | – | – | 506,007 |
| Financial assets at amortised cost | – | – | – | – | 200,411 | – | 200,411 |
| Other assets | – | – | 32,305 | – | – | 221 | 32,526 |
| Current tax asset | – | – | – | – | – | 685 | 685 |
| Investment in subsidiaries | – | – | – | – | – | 1,202,003 | 1,202,003 |
| Investment in associates | – | – | – | – | – | 110,195 | 110,195 |
| **Total assets** | – | 506,007 | 172,948 | – | 200,411 | 1,313,104 | 2,192,470 |
| **LIABILITIES** | | | | | | | |
| Debt securities in issue | – | – | – | – | 932,469 | – | 932,469 |
| Other liabilities | – | – | – | – | 37,126 | – | 37,126 |
| **Total liabilities** | – | – | – | – | 969,595 | – | 969,595 |

**3.2 Credit risk**

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

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

*3.2.1 Credit risk measurement*

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

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

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit risk (continued)**

*3.2.1 Credit risk measurement (continued)*

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

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

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

*(i) Probability of default (PD)*

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

*(ii) Exposure at default (EAD)*

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

*(iii) Loss given default (LGD)*

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

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit risk (continued)**

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

| Group | Notes | Maximum exposure 2018 N$'000 | 2017 N$'000 |
|---|---|---|---|
| *Credit risk exposures relating to on-statement of financial position assets are as follows:* | | | |
| Cash and balances with the central bank | 13 | **1,642,557** | 1,543,070 |
| Financial assets designated at fair value through profit or loss | 14 | **5,245,981** | 3,968,635 |
| – Treasury bills | | **3,221,439** | 2,304,271 |
| – Government stock | | **438,741** | 211,018 |
| – Unit trust investments | | **42,056** | 24,103 |
| – Money market investments | | **1,091,826** | 1,116,990 |
| – Tradable instruments | | **411,707** | 302,427 |
| – Corporate bonds | | **40,212** | 9,826 |
| Financial assets at amortised cost | 14 | **874,252** | 299,687 |
| – Treasury bills | | **249,537** | 254,645 |
| – Government stock | | **624,715** | 45,042 |
| Investment securities | | **134,028** | 149,381 |
| Due from other banks | 16 | **1,773,529** | 2,198,596 |
| Gross loans and advances to customers | 17 | **36,600,985** | 33,746,558 |
| – Overdrafts | | **5,462,041** | 5,402,460 |
| – Term loans | | **10,083,575** | 7,729,446 |
| – Mortgages | | **17,248,618** | 16,616,534 |
| – Instalment finance | | **3,361,848** | 3,557,131 |
| – Preference shares | | **444,903** | 440,987 |
| Other assets* | 18 | **489,326** | 350,192 |
| **Total exposure on statement of financial position** | | **46,760,658** | 42,256,119 |
| *Credit risk exposure relating to off-statement of financial position items are as follows:* | | | |
| Liabilities under guarantees | 38 | **1,380,115** | 1,495,326 |
| Letters of credit | 38 | **315,491** | 100,373 |
| Loan commitments | 38 | **1,714,759** | 1,763,653 |
| **Total exposure off statement of financial position** | | **3,410,365** | 3,359,352 |
| **Total credit risk exposure** | | **50,171,023** | 45,615,471 |

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit risk (continued)**

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

| Company | Notes | Maximum exposure 2018 N$'000 | Maximum exposure 2017 N$'000 |
|---|---|---|---|
| Cash and balances with the central bank | 13 | **104,123** | 140,643 |
| Financial assets designated at fair value through profit or loss | 14 | **553,173** | 506,007 |
| – Money market investments | | **31,972** | 203,580 |
| – Government stock | | **109,494** | – |
| – Tradable instruments | | **411,707** | 302,427 |
| Financial assets at amortised cost | 14 | **202,060** | 200,411 |
| – Preference shares | | **202,060** | 200,411 |
| Other assets* | | **122,972** | 32,305 |
| **Total exposure on statement of financial position** | | **982,328** | 879,366 |
| **Total credit risk exposure** | | **982,328** | 879,366 |

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

The table represents a worst-case scenario of credit risk exposure to the group as at 30 June 2018 and 2017, without taking account of any collateral held or other credit enhancements attached. For all assets listed on the statement of financial position, the exposures set out above are based on carrying amounts as reported.

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

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

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

*3.2.3 Risk limit control and mitigation policies*

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

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

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit risk (continued)**

*3.2.3 Risk limit control and mitigation policies (continued)*

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

Other specific control and mitigation measures are outlined below:

*(a) Collateral*

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

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

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

*Collateral per class of loans and advances:*

Mortgages:

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

Instalment finance:

- the instalment finance contract binds the underlying article as security.

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

- suretyships;
- registered cession of life insurance policy;
- any other form of tangible collateral security subject to approval by the board credit committee; and
- cession of fixed deposits, notice deposits, bills, bonds, shares, investments or debtors.

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

Property valuation

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

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit risk (continued)**

*3.2.3 Risk limit control and mitigation policies (continued)*

*(a) Collateral (continued)*

Life insurance valuation

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

Credit life insurance

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

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

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

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

*(c) Derivatives*

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

*(d) Credit-related commitments*

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

*3.2.4 Impairment policies*

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

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit risk (continued)**

*3.2.5 Credit quality of loans and advances and other financial instruments*

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

*Initial applications*

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

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

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

*Subsequent credit assessments*

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

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

The banks have a process to proactively manage potential problem accounts to prevent possible losses. These advances are identified with assistance of the branches and are part of monthly credit reporting processes. Impairments on these active accounts are raised in accordance with regulatory requirements under the special mention category.

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit risk (continued)**

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

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

The table below shows the loans and advances age analysis:

| Group | Neither past due nor impaired N$'000 | Past due not impaired N$'000 | Special mention 0 – 30 days N$'000 | Special mention 31 – 60 days N$'000 | Special mention 61 – 90 days N$'000 | Non-performing More than 90 days N$'000 | Total N$'000 |
|---|---|---|---|---|---|---|---|
| **As at 30 June 2018** | | | | | | | |
| Overdrafts | 4,903,361 | 143,077 | 80,879 | 9,021 | 101,902 | 223,801 | 5,462,041 |
| Term loans | 9,260,775 | 156,278 | 73,836 | 108,427 | 82,131 | 402,128 | 10,083,575 |
| Mortgages | 16,374,236 | 213,617 | 58,264 | 34,739 | 39,309 | 528,453 | 17,248,618 |
| Instalment finance | 3,241,103 | 18,760 | 3,039 | 10,619 | 5,014 | 83,313 | 3,361,848 |
| Preference shares | 444,903 | – | – | – | – | – | 444,903 |
| **Total gross loans and advances** | 34,224,378 | 531,732 | 216,018 | 162,806 | 228,356 | 1,237,695 | 36,600,985 |
| Specific impairment raised against unsecured amount* | – | – | (9,768) | (7,357) | (1,723) | (239,563) | (258,411) |
| **Total loans and advances after specific impairments** | 34,224,378 | 531,732 | 206,250 | 155,449 | 226,633 | 998,132 | 36,342,574 |
| Security held against past due not impaired and impaired loans | – | (156,934) | (151,383) | (155,449) | (104,962) | (998,132) | (1,566,860) |
| | 34,224,378 | 374,798 | 54,867 | – | 121,671 | – | 34,775,714 |
| **As at 30 June 2017** | | | | | | | |
| Overdrafts | 4,800,832 | 346,710 | 104,528 | 19,980 | 11,554 | 118,856 | 5,402,460 |
| Term loans | 6,988,246 | 196,756 | 179,070 | 25,515 | 79,137 | 260,722 | 7,729,446 |
| Mortgages | 15,405,703 | 672,523 | 121,105 | 47,962 | 51,570 | 317,671 | 16,616,534 |
| Instalment finance | 3,417,058 | 65,325 | 5,904 | 7,114 | 9,601 | 52,129 | 3,557,131 |
| Preference shares | 440,987 | – | – | – | – | – | 440,987 |
| **Total gross loans and advances** | 31,052,826 | 1,281,314 | 410,607 | 100,571 | 151,862 | 749,378 | 33,746,558 |
| Specific impairment raised against unsecured amount* | – | – | (23,164) | (4,809) | (5,112) | (158,327) | (191,412) |
| **Total loans and advances after specific impairments** | 31,052,826 | 1,281,314 | 387,443 | 95,762 | 146,750 | 591,051 | 33,555,146 |
| Security held against past due not impaired and impaired loans | – | (950,112) | (324,193) | (80,310) | (132,223) | (591,051) | (2,077,889) |
| | 31,052,826 | 331,202 | 63,250 | 15,452 | 14,527 | – | 31,477,257 |

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

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

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit risk (continued)**

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

*(ii) Non-performing loans and advances*

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

Non-performing loans and advances to customers before taking into consideration the cash flows from collateral held is N$1,130.4 million (2017: N$749.4 million). The increase in non-performing loans and advances is mainly due to the deterioration of the macro-economic environment. The breakdown of the gross amounts of non-performing loans and advances by class, along with the value of related tangible collateral held by the group as security, is as follows:

| Group | Overdrafts N$'000 | Term loans N$'000 | Mortgages N$'000 | Instalment finance N$'000 | Total N$'000 |
|---|---|---|---|---|---|
| **As at 30 June 2018** | | | | | |
| Non-performing loans | **223,801** | **402,128** | **528,453** | **83,313** | **1,237,695** |
| Value of tangible collateral | **184,327** | **297,649** | **469,190** | **46,966** | **998,132** |
| Impairment raised against unsecured amount | **39,474** | **104,479** | **59,263** | **36,347** | **239,563** |
| Net exposure | **–** | **–** | **–** | **–** | **–** |
| **As at 30 June 2017** | | | | | |
| Non-performing loans | 118,856 | 260,722 | 317,671 | 52,129 | 749,378 |
| Value of tangible collateral | 100,047 | 190,432 | 273,671 | 26,901 | 591,051 |
| Impairment raised against unsecured amount | 18,809 | 70,290 | 44,000 | 25,228 | 158,327 |
| Net exposure | – | – | – | – | – |

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

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

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

| Geographical area | 2018 N$'000 | 2017 N$'000 |
|---|---|---|
| Namibia | **829,389** | 412,616 |
| Botswana | **275,713** | 213,289 |
| Zambia | **132,593** | 123,473 |
| | **1,237,695** | 749,378 |

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit risk (continued)**

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

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

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

| | Group | | Company | |
|---|---|---|---|---|
| **Group** | **2018 N$'000** | **2017 N$'000** | **2018 N$'000** | **2017 N$'000** |
| Cash and balances with the central bank | **1,642,557** | 1,543,070 | **104,123** | 140,643 |
| Financial assets designated at fair value through profit or loss | **5,245,981** | 3,968,635 | **553,173** | 506,007 |
| Financial assets at amortised cost | **874,252** | 299,687 | **202,060** | 200,411 |
| Investment securities | **134,028** | 149,381 | **–** | – |
| Due from other banks | **1,773,529** | 2,198,596 | **–** | – |
| Other assets | **489,326** | 350,192 | **122,972** | 32,305 |

No impairment has been raised against these assets.

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

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

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit risk (continued)**

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

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

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

| Group | Carrying value N$'000 | Investment grade (AAA to BBB) N$'000 | Speculative/ high yield (BB and lower) N$'000 | Unrated N$'000 | Total N$'000 |
|---|---|---|---|---|---|
| **As at 30 June 2018** | | | | | |
| Balances with the central bank | – | 1,278,640 | – | – | 1,278,640 |
| Cash balances | – | – | – | 363,917 | 363,917 |
| Financial assets designated at fair value through profit or loss | – | 5,245,981 | – | – | 5,245,981 |
| – Treasury bills | – | 3,221,439 | – | – | 3,221,439 |
| – Government stock | – | 438,741 | – | – | 438,741 |
| – Money market investments | – | 1,091,826 | – | – | 1,091,826 |
| – Tradable instruments | – | 411,707 | – | – | 411,707 |
| – Other securities | – | 82,268 | – | – | 82,268 |
| Financial assets at amortised cost | – | 624,715 | 249,537 | – | 874,252 |
| – Treasury bills | – | – | 249,537 | – | 249,537 |
| – Government stock | – | 624,715 | – | – | 624,715 |
| – Preference shares | – | – | – | – | – |
| Investment securities | – | 134,028 | – | – | 134,028 |
| Due from other banks | – | 917,324 | 77,733 | 778,472 | 1,773,529 |
| Other assets | – | – | – | 489,326 | 489,326 |
| **Non-financial assets** | 1,039,595 | – | – | – | 1,039,595 |
| **Total assets (excluding loans and advances)** | 1,039,595 | 8,200,688 | 327,270 | 1,631,715 | 11,199,268 |

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit risk (continued)**

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

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

| Group | Carrying value | Investment grade (AAA to BBB) N$'000 | Speculative/ high yield (BB and lower) N$'000 | Unrated N$'000 | Total N$'000 |
|---|---|---|---|---|---|
| **As at 30 June 2017** | | | | | |
| Balances with the central bank | – | 1,224,336 | – | – | 1,224,336 |
| Cash balances | – | – | – | 318,734 | 318,734 |
| Financial assets designated at fair value through profit or loss | – | 3,742,990 | – | 225,645 | 3,968,635 |
| – Treasury bills | – | 2,304,271 | – | – | 2,304,271 |
| – Government stock | – | 211,018 | – | – | 211,018 |
| – Money market investments | – | 891,374 | – | 225,616 | 1,116,990 |
| – Tradable instruments | – | 302,427 | – | – | 302,427 |
| – Other securities | – | 33,900 | – | 29 | 33,929 |
| Financial assets at amortised cost | – | 41,621 | 258,066 | – | 299,687 |
| – Treasury bills | – | 18,861 | 235,784 | – | 254,645 |
| – Government stock | – | 22,760 | 22,282 | – | 45,042 |
| – Preference shares | – | – | – | – | – |
| – Investment securities | – | 149,381 | – | – | 149,381 |
| Due from other banks | – | 1,641,450 | – | 557,146 | 2,198,596 |
| Other assets | – | – | – | 350,192 | 350,192 |
| **Non-financial assets** | 977,431 | – | – | – | 977,431 |
| **Total assets (excluding loans and advances)** | 977,431 | 6,799,778 | 258,066 | 1,451,717 | 9,486,992 |

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

For the company, all financial assets are rated at investment grade (AAA to BBB) for the current period and prior period, except for preference shares and other assets, which are unrated.

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit risk (continued)**

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

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

***(a) Long-term claims***

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

***(b) Short-term claims***

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

*Unchanged from prior period risk weightings.*

*3.2.6 Repossessed collateral*

The group obtains assets by taking possession of collateral held as security. The value of the assets still on the statement of financial position for both 30 June 2018 and 30 June 2017 was nil. Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the statement of financial position as other assets.

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit risk (continued)**

*3.2.7 Credit risk weighted amounts*

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

| | Exposure N$'000 | Impairment N$'000 | Risk-weighted amounts N$'000 | Written off N$'000 |
|---|---|---|---|---|
| **As at 30 June 2018** | | | | |
| ***Counterparties*** | | | | |
| Sovereign and central bank | 5,044,406 | – | – | – |
| Public sector entities | 466,487 | – | 152,223 | – |
| Banks | 1,721,411 | – | 360,870 | – |
| Corporate | 8,950,348 | 12,506 | 9,929,610 | – |
| Retail | 8,261,673 | 117,948 | 6,212,652 | 35,662 |
| Residential mortgage properties | 10,112,577 | 47,631 | 5,227,930 | 5,285 |
| Commercial real estate | 7,136,041 | 7,281 | 7,389,207 | 66 |
| Other assets | 4,720,248 | – | 3,102,373 | – |
| *Included in other assets:* | | | | |
| – Listed shares | 134,028 | – | 134,028 | – |
| | 46,413,191 | 185,366 | 32,374,865 | 41,013 |
| **Commitments** | 3,412,153 | – | 1,231,578 | – |
| **As at 30 June 2017** | | | | |
| ***Counterparties*** | | | | |
| Sovereign and central bank | 2,968,843 | – | – | – |
| Public sector entities | 426,150 | – | 134,143 | – |
| Banks | 948,188 | – | 190,006 | – |
| Corporate | 9,041,507 | 15 | 9,070,575 | – |
| Retail | 6,397,423 | 47,371 | 4,841,420 | 63,314 |
| Residential mortgage properties | 9,515,415 | 35,205 | 4,735,797 | 649 |
| Commercial real estate | 7,101,119 | 1,696 | 7,331,594 | – |
| Other assets | 4,559,278 | – | 3,227,401 | – |
| *Included in other assets:* | | | | |
| – Listed shares | 149,381 | – | 149,381 | – |
| | 40,957,923 | 84,287 | 29,530,936 | 63,963 |
| **Commitments** | 3,312,024 | – | 1,382,976 | – |

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit risk (continued)**

*3.2.7 Credit risk weighted amounts (continued)*

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

| | 2018 | 2017 |
|---|---|---|
| Namibia long-term local currency issuer default rating | BB+ | BBB |
| Namibia long-term issuer default rating | BB+ | BBB- |
| Botswana long-term local currency issuer default rating | A- | A- |
| Botswana long-term issuer default rating | A- | A- |
| Zambia long-term local currency issuer default rating | B | B |
| Zambia long-term issuer default rating | B | B |

*3.2.8 Credit concentration risk*

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

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit risk (continued)**

*3.2.8 Credit concentration risk (continued)*

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

| Group | Cash and balances with the central bank N$'000 | Investment securities N$'000 | Financial assets designated at fair value through profit or loss N$'000 | Financial assets at amortised cost N$'000 | Due from other banks N$'000 | Loans and advances to customers N$'000 | Other assets N$'000 | Total N$'000 |
|---|---|---|---|---|---|---|---|---|
| **As at 30 June 2018** | | | | | | | | |
| Agriculture and forestry | – | – | – | – | – | 2,242,881 | – | 2,242,881 |
| Fishing | – | – | – | – | – | 137,901 | – | 137,901 |
| Mining | – | – | – | – | – | 468,627 | – | 468,627 |
| Manufacturing | – | – | – | – | – | 581,193 | – | 581,193 |
| Building and construction | – | – | – | – | – | 2,077,507 | – | 2,077,507 |
| Electricity, gas and water | – | – | – | – | – | 135,680 | – | 135,680 |
| Trade and accommodation[1] | – | – | – | – | – | 13,487,064 | – | 13,487,064 |
| Transport and communication | – | – | – | – | – | 583,201 | – | 583,201 |
| Finance and insurance | 363,917 | 134,028 | 1,695,294 | – | 1,773,529 | 650,259 | – | 4,617,027 |
| Real estate and business services | – | – | – | – | – | 9,309,596 | – | 9,309,596 |
| Government | 1,278,640 | – | 3,550,687 | 874,252 | – | 314,191 | – | 6,017,770 |
| Individuals | – | – | – | – | – | 6,345,989 | – | 6,345,989 |
| Other[2] | – | – | – | – | – | 266,896 | 489,326 | 756,222 |
| Impairment | – | – | – | – | – | (366,567) | – | (366,567) |
| | 1,642,557 | 134,028 | 5,245,981 | 874,252 | 1,773,529 | 36,234,418 | 489,326 | 46,394,091 |

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit risk (continued)**

*3.2.8 Credit concentration risk (continued)*

| | Cash and balances with the central bank N$'000 | Investment securities N$'000 | Financial assets designated at fair value through profit or loss N$'000 | Financial assets at amortised cost N$'000 | Due from other banks N$'000 | Loans and advances to customers N$'000 | Other assets N$'000 | Total N$'000 |
|---|---|---|---|---|---|---|---|---|
| **As at 30 June 2017** | | | | | | | | |
| Agriculture and forestry | – | – | – | – | – | 1,889,409 | – | 1,889,409 |
| Fishing | – | – | – | – | – | 168,636 | – | 168,636 |
| Mining | – | – | – | – | – | 317,837 | – | 317,837 |
| Manufacturing | – | – | – | – | – | 609,282 | – | 609,282 |
| Building and construction | – | – | – | – | – | 1,987,024 | – | 1,987,024 |
| Electricity, gas and water | – | – | – | – | – | 97,901 | – | 97,901 |
| Trade and accommodation[1] | – | – | – | – | – | 12,838,881 | – | 12,838,881 |
| Transport and communication | – | – | – | – | – | 442,738 | – | 442,738 |
| Finance and insurance | 318,734 | 149,381 | 1,453,346 | – | 2,198,596 | 550,432 | 3,804 | 4,674,293 |
| Real estate and business services | – | – | – | – | – | 8,536,984 | – | 8,536,984 |
| Government | 1,224,336 | – | 2,515,289 | 299,687 | – | 35,948 | – | 4,075,260 |
| Individuals | – | – | – | – | – | 6,012,063 | – | 6,012,063 |
| Other[2] | – | – | – | – | – | 259,423 | 346,388 | 605,811 |
| Impairment | – | – | – | – | – | (312,636) | – | (312,636) |
| | 1,543,070 | 149,381 | 3,968,635 | 299,687 | 2,198,596 | 33,433,922 | 350,192 | 41,943,483 |

[1] *Trade and accommodation includes all loans and advances granted to individuals that acquire property for residential purposes through closed corporation entity types, e.g. residential mortgage loans and advances granted to hotels, lodges, restaurants and the related.*

[2] *Other assets include the insurance fund asset, accounts receivable, derivatives as well as clearing and settlement accounts.*

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit risk (continued)**

*3.2.9 Credit risk concentration by geographical area*

| Group | Cash and balances with the central bank N$'000 | Investment securities N$'000 | Financial assets designated at fair value through profit or loss N$'000 | Due from other banks N$'000 | Loans and advances to customers N$'000 | Financial assets at amortised cost N$'000 | Other assets N$'000 | Total N$'000 |
|---|---|---|---|---|---|---|---|---|
| **As at 30 June 2018** | | | | | | | | |
| Namibia | **1,225,633** | **–** | **4,172,157** | **2,750** | **30,611,673** | **624,715** | **349,115** | **36,986,043** |
| Botswana | **259,360** | **–** | **519,127** | **892,644** | **4,739,865** | **–** | **84,558** | **6,495,554** |
| South Africa | **–** | **–** | **548,608** | **89,862** | **–** | **–** | **–** | **638,470** |
| United Kingdom | **–** | **–** | **918** | **9,044** | **–** | **–** | **–** | **9,962** |
| United States of America | **–** | **134,028** | **3,238** | **562,581** | **–** | **–** | **–** | **699,847** |
| Zambia | **157,564** | **–** | **–** | **112,192** | **882,880** | **249,537** | **55,653** | **1,457,826** |
| Other countries[1] | **–** | **–** | **1,933** | **104,456** | **–** | **–** | **–** | **106,389** |
| | **1,642,557** | **134,028** | **5,245,981** | **1,773,529** | **36,234,418** | **874,252** | **489,326** | **46,394,091** |

| Group | Cash and balances with the central bank N$'000 | Investment securities N$'000 | Financial assets designated at fair value through profit or loss N$'000 | Due from other banks N$'000 | Loans and advances to customers N$'000 | Financial assets at amortised cost N$'000 | Other assets N$'000 | Total N$'000 |
|---|---|---|---|---|---|---|---|---|
| **As at 30 June 2017** | | | | | | | | |
| Namibia | 1,081,041 | – | 3,080,365 | 238,101 | 28,507,718 | 41,621 | 197,232 | 33,146,078 |
| Botswana | 245,944 | – | 382,263 | 1,042,575 | 4,092,664 | – | 34,688 | 5,798,134 |
| South Africa | – | – | 506,007 | 32,778 | – | – | 71 | 538,856 |
| United Kingdom | – | – | – | 14,451 | – | – | – | 14,451 |
| United States of America | – | 149,381 | – | 601,774 | – | – | – | 751,155 |
| Zambia | 216,085 | – | – | 137,013 | 833,540 | 258,066 | 118,201 | 1,562,905 |
| Other countries[2] | – | – | – | 131,904 | – | – | – | 131,904 |
| | 1,543,070 | 149,381 | 3,968,635 | 2,198,596 | 33,433,922 | 299,687 | 350,192 | 41,943,483 |

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

[1] *Other foreign currency exposures relate mainly to exposures to the European Union euro: N$104 million due from other banks.*

[2] *Other foreign currency exposures relate mainly to exposures to the European Union euro: N$99.5 million due from other banks.*

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.3 Market risk**

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

*3.3.1 Market risk measurement techniques*

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

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

*3.3.2 Foreign currency risk*

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

Market risk is managed by closely monitoring the limits as set out in the market risk framework. The group follows a conservative approach to the products it deals with, and the approved products as well as the limits thereof are detailed in the dealing limits policy. The board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored continuously.

The traders' limits are a function of responsibility, experience and qualifications. Foreign currency risk management is achieved through an automated risk management system, and the limit management is independently administered by the middle office risk function within the risk department. All traders are required to sign off on the applicable policies, must be knowledgeable on its contents, and have them on hand when trading. All excesses on limits are immediately flagged, investigated, mitigated, and escalated if required.

Models and stress tests are used to gain an increased understanding of the market risk environment. In addition, foreign exchange positions are managed via stop loss orders and closing or hedging out unwanted exposure via derivatives or in the spot market. Additionally, it is the group's policy to close out all forward and option foreign currency transactions via back-to-back forward and option foreign currency transactions with counterparty banks, which is also diligently monitored by the independent middle office risk function.

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# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.3 Market risk (continued)**

*3.3.2 Foreign currency risk (continued)*

*Concentration of foreign currency denominated financial instruments*

The table below summarises the group's exposure to foreign currency exchange rate risk at year-end. Included in the table are the group's financial instruments at the carrying amounts, categorised by currency:

| Group | NAD N$'000 | ZMW N$'000 | US$ N$'000 | € N$'000 | BWP N$'000 | ZAR[1] N$'000 | Other N$'000 | Total N$'000 |
|---|---|---|---|---|---|---|---|---|
| **As at 30 June 2018** | | | | | | | | |
| **ASSETS** | | | | | | | | |
| Cash and balances with the central bank | 1,225,633 | 157,564 | – | – | 259,360 | – | – | 1,642,557 |
| Financial assets designated at fair value through profit or loss | 4,172,157 | – | 3,238 | – | 519,127 | 548,608 | 2,851 | 5,245,981 |
| Financial assets at amortised cost | 624,715 | 249,537 | – | – | – | – | – | 874,252 |
| Investment securities | – | – | 134,028 | – | – | – | – | 134,028 |
| Due from other banks | 2,750 | 112,192 | 743,451 | 158,454 | 610,033 | 137,605 | 9,044 | 1,773,529 |
| Loans and advances to customers | 30,562,293 | 463,345 | 432,463 | – | 4,771,567 | – | 4,750 | 36,234,418 |
| Other assets | 349,115 | 84,558 | – | – | 55,653 | – | – | 489,326 |
| **Total financial assets** | 36,936,663 | 1,067,196 | 1,313,180 | 158,454 | 6,215,740 | 686,213 | 16,645 | 46,394,091 |
| **Non-financial assets** | 927,643 | 111,952 | – | – | – | – | – | 1,039,595 |
| **Total assets** | 37,864,306 | 1,179,148 | 1,313,180 | 158,454 | 6,215,740 | 686,213 | 16,645 | 47,433,686 |
| **LIABILITIES** | | | | | | | | |
| Due to other banks | – | 107,519 | 62,654 | – | 41,117 | 41,010 | 383 | 252,683 |
| Other borrowings | 6,958 | – | 95,978 | – | – | 1,210,497 | – | 1,313,433 |
| Debt securities in issue | 4,047,691 | – | – | – | 132,184 | 528,571 | 68,628 | 4,777,074 |
| Deposits | 26,733,208 | 1,181,657 | 647,444 | 137,795 | 5,217,996 | 11,271 | 18,720 | 33,948,091 |
| Other liabilities | 1,107,531 | – | – | – | 91,263 | 5,535 | – | 1,204,329 |
| **Total financial liabilities** | 31,895,388 | 1,289,176 | 806,076 | 137,795 | 5,482,560 | 1,796,884 | 87,731 | 41,495,610 |
| **Non-financial liabilities** | 46,886 | – | – | – | – | – | – | 46,886 |
| **Total liabilities** | 31,942,274 | 1,289,176 | 806,076 | 137,795 | 5,482,560 | 1,796,884 | 87,731 | 41,542,496 |
| **Total equity (including NCI)** | 5,891,190 | – | – | – | – | – | – | 5,891,190 |
| **Total equity and liabilities** | 37,833,464 | 1,289,176 | 806,076 | 137,795 | 5,482,560 | 1,796,884 | 87,731 | 47,433,686 |
| **Net financial position of financial instruments** | 5,041,275 | (221,980) | 507,104 | 20,659 | 733,180 | (1,110,671) | (71,086) | 4,898,481 |
| Credit commitments | – | – | 114,524 | 3,294 | 7,370 | 48,186 | 180 | 173,554 |

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.3 Market risk (continued)**

*3.3.2 Foreign currency risk (continued)*

| Company | NAD N$'000 | ZMW N$'000 | US$ N$'000 | € N$'000 | BWP N$'000 | ZAR[1] N$'000 | Other N$'000 | Total N$'000 |
|---|---|---|---|---|---|---|---|---|
| **As at 30 June 2018** | | | | | | | | |
| **ASSETS** | | | | | | | | |
| Cash and balances with the central bank | 7,239 | – | 96,884 | – | – | – | – | 104,123 |
| Financial assets designated at fair value through profit or loss | 8,881 | – | – | – | – | 544,292 | – | 553,173 |
| Financial assets at amortised cost | – | 69,738 | – | – | 132,322 | – | – | 202,060 |
| Other assets | 122,972 | – | – | – | – | – | – | 122,972 |
| **Total financial assets** | 139,092 | 69,738 | 96,884 | – | 132,322 | 544,292 | – | 982,328 |
| **Non-financial assets** | 1,676,633 | – | – | – | – | – | – | 1,676,633 |
| **Total assets** | 1,815,725 | 69,738 | 96,884 | – | 132,322 | 544,292 | – | 2,658,961 |
| **LIABILITIES** | | | | | | | | |
| Other borrowings | – | – | 95,923 | – | – | – | – | 95,923 |
| Debt securities in issue | 1,038,272 | – | – | – | – | – | – | 1,038,272 |
| Other liabilities | 217,227 | – | – | – | – | – | – | 217,227 |
| **Total financial liabilities** | 1,255,499 | – | 95,923 | – | – | – | – | 1,351,422 |
| **Total equity (including NCI)** | 1,307,539 | – | – | – | – | – | – | 1,307,539 |
| **Total equity and liabilities** | 2,563,038 | – | 95,923 | – | – | – | – | 2,658,961 |
| **Net financial position of financial instruments** | (1,116,407) | 69,738 | 961 | – | 132,322 | 544,292 | – | (369,094) |

| Group | NAD N$'000 | ZMW N$'000 | US$ N$'000 | € N$'000 | BWP N$'000 | ZAR[1] N$'000 | Other N$'000 | Total N$'000 |
|---|---|---|---|---|---|---|---|---|
| **As at 30 June 2017** | | | | | | | | |
| **ASSETS** | | | | | | | | |
| Financial assets | 33,003,632 | 1,158,165 | 1,250,887 | 138,765 | 5,793,398 | 577,243 | 21,393 | 41,943,483 |
| Non-financial assets | 977,431 | – | – | – | – | – | – | 977,431 |
| Total assets | 33,981,063 | 1,158,165 | 1,250,887 | 138,765 | 5,793,398 | 577,243 | 21,393 | 42,920,914 |
| **LIABILITIES** | | | | | | | | |
| Financial liabilities | 27,552,693 | 1,068,089 | 1,208,903 | 98,353 | 5,247,800 | 2,497,741 | 12,335 | 37,685,914 |
| Non-financial liabilities | 24,085 | – | – | – | – | – | – | 24,085 |
| Total liabilities | 27,576,778 | 1,068,089 | 1,208,903 | 98,353 | 5,247,800 | 2,497,741 | 12,335 | 37,709,999 |
| Total equity | 5,210,915 | – | – | – | – | – | – | 5,210,915 |
| Total equity and liabilities | 32,787,693 | 1,068,089 | 1,208,903 | 98,353 | 5,247,800 | 2,497,741 | 12,335 | 42,920,914 |
| Net financial position of financial instruments | 5,450,939 | 90,076 | 41,984 | 40,412 | 545,598 | (1,920,498) | 9,058 | 4,257,569 |
| Credit commitments | – | – | 89,574 | 680 | – | 14,361 | – | 104,615 |

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.3 Market risk (continued)**

*3.3.2 Foreign currency risk (continued)*

| Company | NAD N$'000 | ZMW N$'000 | US$ N$'000 | € N$'000 | BWP N$'000 | ZAR[1] N$'000 | Other N$'000 | Total N$'000 |
|---|---|---|---|---|---|---|---|---|
| **As at 30 June 2017** | | | | | | | | |
| **ASSETS** | | | | | | | | |
| Cash and balances with the central bank | 140,643 | – | – | – | – | – | – | 140,643 |
| Financial assets designated at fair value through profit or loss | – | – | – | – | – | 506,007 | – | 506,007 |
| Financial assets at amortised cost | – | 71,706 | – | – | 128,705 | – | – | 200,411 |
| Other assets | 32,526 | – | – | – | – | – | – | 32,526 |
| **Total financial assets** | 173,169 | 71,706 | – | – | 128,705 | 506,007 | – | 879,587 |
| **Non-financial assets** | 1,312,883 | – | – | – | – | – | – | 1,312,883 |
| **Total assets** | 1,486,052 | 71,706 | – | – | 128,705 | 506,007 | – | 2,192,470 |
| **LIABILITIES** | | | | | | | | |
| Debt securities in issue | 932,469 | – | – | – | – | – | – | 932,469 |
| Other liabilities | 37,126 | – | – | – | – | – | – | 37,126 |
| Total financial liabilities | 969,595 | – | – | – | – | – | – | 969,595 |
| **Total equity** | 1,222,875 | – | – | – | – | – | – | 1,222,875 |
| **Total equity and liabilities** | 2,192,470 | – | – | – | – | – | – | 2,192,470 |
| **Net financial position of financial instruments** | (796,426) | 71,706 | – | – | 128,705 | 506,007 | – | (90,008) |

[1] *The Namibian dollar is pegged to the South African rand and is therefore not exposed to currency risk.*

The following exchange rates (number of units of Namibian dollar per unit of foreign currency) were used on conversion of foreign currency monetary items at the reporting date:

| | 2018 | 2017 |
|---|---|---|
| USD | **13.82** | 13.09 |
| GBP | **18.18** | 17.00 |
| EUR | **16.09** | 14.94 |
| ZAR | **1.00** | 1.00 |
| ZMW | **1.37** | 1.43 |
| BWP | **1.31** | 1.28 |

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.3 Market risk (continued)**

*3.3.2 Foreign currency risk (continued)*

| | Group | | Company | |
|---|---|---|---|---|
| | Effect on profit for the year | | Effect on profit for the year | |
| **The following is a sensitivity analysis, monitored on the following major currencies of non-equity instruments, had a 5% change arisen on the various currencies:** | **2018 N$'000** | **2017 N$'000** | **2018 N$'000** | **2017 N$'000** |
| US dollar/Namibian dollar | **7,572** | 329 | **36** | – |
| – Foreign currency financial assets | **34,254** | 37,032 | **3,633** | – |
| – Foreign currency financial liabilities | **(26,682)** | (36,703) | **(3,597)** | – |
| Euro/Namibian dollar | **1,371** | 1,960 | **–** | – |
| – Foreign currency financial assets | **5,304** | 5,481 | **–** | – |
| – Foreign currency financial liabilities | **(3,933)** | (3,521) | **–** | – |

| | Group | |
|---|---|---|
| | Effect on other comprehensive income | |
| **The following effect of 5% change would arise on equity instruments:** | **2018 N$'000** | **2017 N$'000** |
| Effect of US dollar denominated equity instrument | **6,669** | 7,426 |

*3.3.3 Interest rate risk*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored monthly.

Assets and liabilities are classified as interest sensitive if the interest rate is floating (classified in the "up to one month" bucket), or if the interest rate applied to the outstanding principal balance fluctuates contractually during its lifespan (classified at the earliest of reprise or maturity). The key assumption made is that when an asset or liability matures within a certain bucket, the principal amount will be reprised. If an asset matures the proceeds are reinvested and when any liability matures the liability is replaced with new funding. Balances classified as "non-interest sensitive" are not affected by changes in interest rates, e.g. statutory cash balances with the Bank of Namibia, which carries no interest. The balances included in the buckets are therefore exposed to both cash flow risk (to the extent that interest rates are floating) and fair value risk (to the extent that interest rates are fixed until reprised). This is in the manner consistent with information communicated to key management.

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.3 Market risk (continued)**

*3.3.3 Interest rate risk (continued)*

The table below summarises the group's exposure to interest rate risks. It includes the group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates:

*(i) Interest rate risk analysis*

| Group | Up to 1 month N$'000 | 1 – 3 months N$'000 | 3 – 12 months N$'000 | More than 1 year N$'000 | Non-interest sensitive N$'000 | Total N$'000 |
|---|---|---|---|---|---|---|
| **As at 30 June 2018** | | | | | | |
| **ASSETS** | | | | | | |
| Cash and balances with the central bank | 707,498 | – | – | – | 935,059 | 1,642,557 |
| Financial assets designated at fair value through profit or loss | 2,316,978 | 830,659 | 753,940 | 1,311,580 | 32,824 | 5,245,981 |
| Financial assets at amortised cost | 5,487 | 139,641 | 64,767 | 664,357 | – | 874,252 |
| Investment securities | – | – | – | – | 134,028 | 134,028 |
| Due from other banks | 1,773,529 | – | – | – | – | 1,773,529 |
| Loans and advances to customers | 33,515,665 | 492,081 | 60,775 | 1,572,998 | 592,899 | 36,234,418 |
| Other assets | 53,742 | – | – | – | 435,584 | 489,326 |
| **Total financial assets** | 38,372,899 | 1,462,381 | 879,482 | 3,548,935 | 2,130,394 | 46,394,091 |
| **Non-financial assets** | – | – | – | – | 1,039,595 | 1,039,595 |
| **Total assets** | 38,372,899 | 1,462,381 | 879,482 | 3,548,935 | 3,169,989 | 47,433,686 |
| **LIABILITIES** | | | | | | |
| Due to other banks | 252,683 | – | – | – | – | 252,683 |
| Other borrowings | – | 1,313,433 | – | – | – | 1,313,433 |
| Debt securities in issue | 587,578 | 2,242,769 | 746,017 | 499,898 | 700,812 | 4,777,074 |
| Deposits | 18,914,042 | 3,057,443 | 9,932,070 | 2,044,536 | – | 33,948,091 |
| Other liabilities | – | 12,500 | 129,589 | 190,000 | 872,240 | 1,204,329 |
| **Total financial liabilities** | 19,754,303 | 6,626,145 | 10,807,676 | 2,734,434 | 1,573,052 | 41,495,610 |
| **Total non-financial liabilities** | – | – | – | – | 46,886 | 46,886 |
| **Total liabilities** | 19,754,303 | 6,626,145 | 10,807,676 | 2,734,434 | 1,619,938 | 41,542,496 |
| **Total equity (including NCI)** | – | – | – | – | 5,891,190 | 5,891,190 |
| **Total equity and liabilities** | 19,754,303 | 6,626,145 | 10,807,676 | 2,734,434 | 7,511,128 | 47,433,686 |
| **Interest sensitivity gap (financial instruments)** | 18,618,596 | (5,163,764) | (9,928,194) | 814,501 | 557,342 | 4,898,481 |
| **Cumulative interest sensitivity gap (financial instruments)** | 18,618,596 | 13,454,832 | 3,526,638 | 4,341,139 | 4,898,481 | |

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.3 Market risk (continued)**

*3.3.3 Interest rate risk (continued)*

*(i) Interest rate risk analysis (continued)*

| Group | Up to 1 month N$'000 | 1 – 3 months N$'000 | 3 – 12 months N$'000 | More than 1 year N$'000 | Non-interest sensitive N$'000 | Total N$'000 |
|---|---|---|---|---|---|---|
| **As at 30 June 2017** | | | | | | |
| Interest sensitivity gap (financial instruments) | 19,413,430 | (10,436,075) | (5,780,975) | (46,858) | 1,108,047 | 4,257,569 |
| Cumulative interest sensitivity gap (financial instruments) | 19,413,430 | 8,977,355 | 3,196,380 | 3,149,522 | 4,257,569 | |

The interest rate sensitivity gap is determined based on methodology applied when reviewing interest rate risk.

*(ii) Interest rate sensitivity analysis*

An interest sensitivity analysis shows how net interest income will perform under a variety of scenarios. The sensitivities below measure the effect of overall changes in interest rates on profit or loss (net interest income) as defined by the banks' interest rate modelling tool. The extent of the shock (50, 100 or 200 basis points) is applied to all interest rates in the system and the effects of these shocks are detailed below.

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 N$'000** | **2017 N$'000** | **2018 N$'000** | **2017 N$'000** |
| The following interest-rate sensitivity is based on the effect of changes to the interest rate over a 12-month period on net interest income: | | | | |
| 50 basis points increase | **55,658** | 51,889 | **(687)** | 465 |
| – Increase in interest income | **223,854** | 216,251 | **4,240** | 2,859 |
| – Increase in interest expense | **(168,196)** | (164,362) | **(4,927)** | (2,394) |
| 50 basis points decrease | **(48,371)** | (49,035) | **687** | (465) |
| – Decrease in interest income | **(165,671)** | (208,914) | **(4,240)** | (2,859) |
| – Decrease in interest expense | **117,300** | 159,879 | **4,927** | 2,394 |
| 100 basis points increase | **111,009** | 104,212 | **(1,373)** | 930 |
| – Increase in interest income | **448,366** | 432,681 | **8,481** | 5,718 |
| – Increase in interest expense | **(337,357)** | (328,469) | **(9,854)** | (4,788) |
| 100 basis points decrease | **(97,861)** | (97,641) | **1,373** | (930) |
| – Decrease in interest income | **(427,759)** | (417,655) | **(8,481)** | (5,718) |
| – Decrease in interest expense | **329,898** | 320,014 | **9,854** | 4,788 |
| 200 basis points increase | **222,453** | 210,330 | **(2,746)** | 1,861 |
| – Increase in interest income | **899,313** | 866,068 | **16,961** | 11,437 |
| – Increase in interest expense | **(676,860)** | (655,738) | **(19,707)** | (9,576) |
| 200 basis points decrease | **(228,679)** | (212,002) | **2,746** | (1,861) |
| – Decrease in interest income | **(853,637)** | (834,537) | **(16,961)** | (11,437) |
| – Decrease in interest expense | **624,958** | 622,535 | **19,707** | 9,576 |

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.3 Market risk (continued)**

*3.3.4 Price risk*

The following fair value financial instruments expose the group to price risk: derivative financial instruments, treasury bills, government stock and unit trust investments designated at fair value through profit or loss and equity securities classified as available for sale. The equity securities are listed on the FTSE and NYSE and are included in “investment securities” on the statement of financial position. The group generally does not undertake equity exposure. The exposure arose due to specific circumstances and are managed individually.

| | | Group | |
|---|---|---|---|
| | *Sensitivity analysis* | **2018 N$’000** | **2017 N$’000** |
| (i) | *Investment securities* | | |
| | The following is a sensitivity analysis showing the increase/(decrease) in the fair value of equity securities had the following changes arisen on the significant inputs: | | |
| | 10% increase in share price (effect on other comprehensive income) | **13,338** | 14,938 |
| | 10% decrease in share price (effect on other comprehensive income) | **(13,338)** | (14,938) |
| (ii) | *Financial assets designated at fair value through profit or loss* | | |
| | The following is a sensitivity analysis showing the increase/(decrease) in the fair value of treasury bills had the following changes arisen on the significant inputs: | | |
| | 100 basis points increase in discount rate (effect on profit or loss) | **(11,067)** | (5,622) |
| | 100 basis points decrease in discount rate (effect on profit or loss) | **11,198** | 5,679 |
| | The following is a sensitivity analysis showing the increase/(decrease) in the fair value of government stock had the following changes arisen on the significant inputs: | | |
| | 100 basis points increase in discount rate (effect on profit or loss) | **(5,940)** | (6,328) |
| | 100 basis points decrease in discount rate (effect on profit or loss) | **6,152** | 6,636 |

*3.3.5 Market risk capital charge*

The following capital charges have been assigned to the components of market risk for the banking group, as defined in BID 5 – “Determination on capital adequacy”:

| | Capital charges | |
|---|---|---|
| | **2018 N$’000** | **2017 N$’000** |
| Interest rate risk | **41,366** | 19,686 |
| Foreign exchange risk | **8,656** | 15,914 |

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.4 Liquidity risk**

Liquidity risk is the risk that the group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn.

Liquidity risk is inherent in the group's business endeavours and represents the ability of the group to fund increases in assets and meet its financial obligations in a timely manner as they come due without incurring excessive costs, while complying with all statutory and regulatory requirements. The banks are the largest contributors to the group's liquidity risk. The liquidity risk framework and Contingency Funding Plan (CFP) sets out the minimum liquidity risk management requirements for the banks, and explains the low-level internal control processes. Under the policy, the banks are required to manage current and future liquidity positions in a prudent manner. This framework formalises the liquidity risk management processes of the banks, the goal of which is to:

- maintain liquidity risk at a manageable level through assessment and monitoring;
- assess and advise against any permanent or temporary adverse changes to the liquidity position of the banks;
- set and monitor limits for funding mix, investment products and client exposures;
- monitor all applicable financial and statutory ratios; and
- identify those liquidity triggers that may entail the activation of the CFP.

The framework sets out rules to effectively control liquidity risk within the risk-return parameters dictated by the board of directors' risk appetite. The banks also, from time to time, conduct external-assisted CFP testing to evaluate the effectiveness thereof, while also continuously enhancing the risk management processes.

The framework aims to protect depositors, creditors, shareholders and other stakeholders of the banks by establishing rules and directions for identifying and managing the resolution of possible serious liquidity problems.

Asset liquidity risk represents the availability of sufficient assets in liquid form to meet pressing obligations. In situations where liquid assets on hand could be utilised to earn a higher return instead of paying current obligations, the opportunity cost also plays a role (i.e. potential higher return less the cost of obtaining replacement liquidity). Liquidity management must attempt to match the most appropriate available liquidity to the most appropriate maturing liabilities.

Funding liquidity risk relates to an enterprise's capability to generate funding at short notice at reasonable expense to meet pressing liquidity requirements.

The group's liquidity management process is outlined in the group liquidity risk framework which includes, inter alia, the group's funding strategy. Procedures, as set out in this policy, include the:

- daily monitoring of liquid assets;
- proactive identification of liquidity requirements and maturing assets;
- liquid asset minimum limit;
- proactive identification of short, medium and long-term liquidity requirements; and
- relationship management with other financial institutions.

In general, the banks do not engage in complex activities or structures and therefore it is considered unnecessary to employ sophisticated and expensive models when determining liquidity needs under various scenarios. A basic but thorough forward-looking analysis is conducted in the day-to-day, as well as monthly analysis of liquidity positions, needs and risks. Limits and rules stipulated in the liquidity risk management policy and by ALCO form the basis for daily quotes on deposits to ensure that an optimal mix and concentrations are maintained.

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.4 Liquidity risk (continued)**

As part of the banks' strategy, the banks continuously focuses on diversifying their funding sources and reducing their reliance on large depositors, which is a common occurrence in the southern African financial markets. That said, the banks utilise a broad range of deposit and funding products to attract all spheres of clients and has strong market share representation in all categories.

Refer to note 25 for other borrowings obtained during the year and,, note 26 for the redemption and additions to debt securities.

The banks must at all times hold an adequate liquid asset surplus which:

- includes a buffer portion;
- is additional to credit lines;
- is adequate to cater for unexpected outflows; and
- is simultaneously limiting the effect this surplus has on interest margins.

***Liquidity risk analysis***

The table below presents the cash flows payable by the group by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows, hence it does not reconcile to the values reflected on the statement of financial position:

| | Contractual undiscounted cash flows | | | | | |
|---|---|---|---|---|---|---|
| **Group** | **Call to 1 month N$'000** | **1 – 3 months N$'000** | **3 – 12 months N$'000** | **1 – 5 years N$'000** | **Over 5 years N$'000** | **Total N$'000** |
| **As at 30 June 2018** | | | | | | |
| **FINANCIAL LIABILITIES** | | | | | | |
| Due to other banks | 252,683 | – | – | – | – | 252,683 |
| Other borrowings | – | 95,923 | 167,273 | 1,225,947 | 240,230 | 1,729,373 |
| Debt securities in issue | 13,272 | 132,184 | 1,352,167 | 1,937,268 | 1,766,084 | 5,200,975 |
| Deposits | 19,622,634 | 4,262,254 | 9,774,173 | 1,455,516 | – | 35,114,577 |
| Other liabilities | 832,972 | 280,760 | – | 90,597 | – | 1,204,329 |
| **Total liabilities (contractual maturity dates)** | **20,721,561** | **4,771,121** | **11,293,613** | **4,709,328** | **2,006,314** | **43,501,937** |
| **Commitments (refer to note 3.2.7 for collateral held over commitments)** | **3,410,365** | **–** | **–** | **–** | **–** | **3,410,365** |
| Loan commitments | 1,714,759 | – | – | – | – | 1,714,759 |
| Liabilities under guarantees | 1,380,115 | – | – | – | – | 1,380,115 |
| Letters of credit | 315,491 | – | – | – | – | 315,491 |

# Notes to the consolidated annual financial statements (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

*Liquidity risk analysis (continued)*

| Group | Contractual undiscounted cash flows Call to 1 month N$'000 | 1 – 3 months N$'000 | 3 – 12 months N$'000 | 1 – 5 years N$'000 | Over 5 years N$'000 | Total N$'000 |
|---|---|---|---|---|---|---|
| **As at 30 June 2017** | | | | | | |
| Due to other banks | 317,914 | – | – | – | – | 317,914 |
| Other borrowings | – | – | 373,654 | 1,651,487 | 364,048 | 2,389,189 |
| Debt securities in issue | – | 281,189 | 457,498 | 2,593,924 | 2,672,118 | 6,004,729 |
| Deposits | 15,432,602 | 5,182,017 | 10,098,460 | 1,728,276 | – | 32,441,355 |
| Other liabilities | 525,804 | – | – | – | – | 525,804 |
| **Total liabilities (contractual maturity dates)** | 16,276,320 | 5,463,206 | 10,929,612 | 5,973,687 | 3,036,166 | 41,678,991 |
| **Commitments (refer to note 3.2.7 for collateral held over commitments)** | 3,359,352 | – | – | – | – | 3,359,352 |
| Loan commitments | 1,763,653 | – | – | – | – | 1,763,653 |
| Liabilities under guarantees | 1,495,326 | – | – | – | – | 1,495,326 |
| Letters of credit | 100,373 | – | – | – | – | 100,373 |

| Company | Contractual undiscounted cash flows Call to 1 month N$'000 | 1 – 3 months N$'000 | 3 – 12 months N$'000 | 1 – 5 years N$'000 | Over 5 years N$'000 | Total N$'000 |
|---|---|---|---|---|---|---|
| **As at 30 June 2018** | | | | | | |
| **FINANCIAL LIABILITIES** | | | | | | |
| Other borrowings | **–** | **95,923** | **–** | **–** | **–** | **95,923** |
| Debt securities in issue | **6,844** | **21,319** | **471,723** | **289,663** | **573,902** | **1,363,451** |
| Other liabilities | **3,305** | **213,922** | **–** | **–** | **–** | **217,227** |
| **Total liabilities (contractual maturity dates)** | **10,149** | **331,164** | **471,723** | **289,663** | **573,902** | **1,676,601** |
| **As at 30 June 2017** | | | | | | |
| **FINANCIAL LIABILITIES** | | | | | | |
| Debt securities in issue | – | – | 7,469 | 416,255 | 1,172,398 | 1,596,122 |
| Other liabilities | 2,603 | 34,523 | – | – | – | 37,126 |
| **Total liabilities (contractual maturity dates)** | 2,603 | 34,523 | 7,469 | 416,255 | 1,172,398 | 1,633,248 |

# Notes to the consolidated annual financial statements (continued)

3. **FINANCIAL RISK MANAGEMENT (continued)**

3.4 **Liquidity risk (continued)**

***Liquidity risk analysis (continued)***

In terms of BID 18 – "Public disclosures for banking institutions" the maturity breakdown of a banking institution's whole credit portfolio should be disclosed. This disclosure, for Capricorn Group, is detailed below:

| | Contractual discounted cash flows | | | | | | |
|---|---|---|---|---|---|---|---|
| **Group** | **Carrying value N$'000** | **Call to 1 month N$'000** | **1 – 3 months N$'000** | **3 – 12 months N$'000** | **1 – 5 years N$'000** | **Over 5 years N$'000** | **Total N$'000** |
| **As at 30 June 2018** | | | | | | | |
| **ASSETS** | | | | | | | |
| Cash and balances with the central bank | – | 1,642,557 | – | – | – | – | 1,642,557 |
| Financial assets designated at fair value through profit or loss | – | 2,551,960 | 669,016 | 713,425 | 1,253,641 | 57,939 | 5,245,981 |
| Financial assets at amortised cost | – | – | – | 360,568 | 513,684 | – | 874,252 |
| Investment securities | – | 134,028 | – | – | – | – | 134,028 |
| Due from other banks | – | 1,773,529 | – | – | – | – | 1,773,529 |
| Gross loans and advances to customers | – | 4,946,417 | 620,218 | 1,627,789 | 11,252,479 | 18,154,082 | 36,600,985 |
| Other assets | – | 435,554 | – | 30 | 53,742 | – | 489,326 |
| Non-financial instruments | 1,039,595 | – | – | – | – | – | 1,039,595 |
| Impairment | (366,567) | – | – | – | – | – | (366,567) |
| **Total assets** | 673,028 | 11,484,045 | 1,289,234 | 2,701,812 | 13,073,546 | 18,212,021 | 47,433,686 |
| **LIABILITIES** | | | | | | | |
| Due to other banks | – | 252,683 | – | – | – | – | 252,683 |
| Other borrowings | – | – | 95,923 | 167,273 | 898,062 | 152,175 | 1,313,433 |
| Debt securities in issue | – | 13,272 | 132,184 | 1,352,167 | 1,715,520 | 1,563,931 | 4,777,074 |
| Deposits | – | 19,622,634 | 3,962,912 | 9,072,983 | 1,289,562 | – | 33,948,091 |
| Other liabilities | – | 832,972 | 280,760 | – | 90,597 | – | 1,204,329 |
| Non-financial instruments | 46,886 | – | – | – | – | – | 46,886 |
| **Total liabilities** | 46,886 | 20,721,561 | 4,471,779 | 10,592,423 | 3,993,741 | 1,716,106 | 41,542,496 |
| **Net liquidity gap** | 626,142 | (9,237,516) | (3,182,545) | (7,890,611) | 9,079,805 | 16,495,915 | 5,891,190 |
| **Cumulative liquidity gap** | 626,142 | (8,611,374) | (11,793,919) | (19,684,530) | (10,604,725) | 5,891,190 | |

# Notes to the consolidated annual financial statements (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

*Liquidity risk analysis (continued)*

| | | Contractual discounted cash flows | | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying value N$'000 | Call to 1 month N$'000 | 1 – 3 months N$'000 | 3 – 12 months N$'000 | 1 – 5 years N$'000 | Over 5 years N$'000 | Total N$'000 |
| **As at 30 June 2017** | | | | | | | |
| **ASSETS** | | | | | | | |
| Cash and balances with the central bank | – | 1,543,070 | – | – | – | – | 1,543,070 |
| Financial assets designated at fair value through profit or loss | – | 1,678,600 | 796,559 | 921,816 | 261,527 | 310,133 | 3,968,635 |
| Financial assets at amortised cost | – | 235,784 | – | 18,861 | 32,377 | 12,665 | 299,687 |
| Investment securities | – | 149,381 | – | – | – | – | 149,381 |
| Due from other banks | – | 2,198,596 | – | – | – | – | 2,198,596 |
| Gross loans and advances to customers | – | 5,513,106 | 466,530 | 1,064,533 | 7,623,099 | 19,079,290 | 33,746,558 |
| Other assets | – | 350,192 | – | – | – | – | 350,192 |
| Non-financial instruments | 977,431 | – | – | – | – | – | 977,431 |
| Impairment | (312,636) | – | – | – | – | – | (312,636) |
| **Total assets** | 664,795 | 11,668,729 | 1,263,089 | 2,005,210 | 7,917,003 | 19,402,088 | 42,920,914 |
| **LIABILITIES** | | | | | | | |
| Due to other banks | – | 317,914 | – | – | – | – | 317,914 |
| Other borrowings | – | – | – | 167,273 | 820,405 | 177,386 | 1,165,064 |
| Debt securities in issue | – | – | 194,589 | 213,339 | 1,763,747 | 1,933,902 | 4,105,577 |
| Deposits | – | 15,375,893 | 5,161,934 | 9,439,008 | 1,594,726 | – | 31,571,561 |
| Other liabilities | – | 525,798 | – | – | – | – | 525,798 |
| Non-financial instruments | 24,085 | – | – | – | – | – | 24,085 |
| **Total liabilities** | 24,085 | 16,219,605 | 5,356,523 | 9,819,620 | 4,178,878 | 2,111,288 | 37,709,999 |
| **Net liquidity gap** | 640,710 | (4,550,876) | (4,093,434) | (7,814,410) | 3,738,125 | 17,290,800 | 5,210,915 |
| **Cumulative liquidity gap** | 640,710 | (3,910,166) | (8,003,600) | (15,818,010) | (12,079,885) | 5,210,915 | |

# Notes to the consolidated annual financial statements (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

*Liquidity risk analysis (continued)*

| | | Contractual discounted cash flows | | | | | |
|---|---|---|---|---|---|---|---|
| **Company** | **Carrying value N$'000** | **Call to 1 month N$'000** | **1 – 3 months N$'000** | **3 – 12 months N$'000** | **1 – 5 years N$'000** | **Over 5 years N$'000** | **Total N$'000** |
| **As at 30 June 2018** | | | | | | | |
| **ASSETS** | | | | | | | |
| Cash and balances with the central bank | – | 104,123 | – | – | – | – | 104,123 |
| Financial assets designated at fair value through profit or loss | – | 32,080 | – | 86,097 | 325,503 | 109,493 | 553,173 |
| Financial assets at amortised cost | – | – | – | – | – | 202,060 | 202,060 |
| Other assets | – | 122,972 | – | – | – | – | 122,972 |
| Non-financial instruments | 1,676,633 | – | – | – | – | – | 1,676,633 |
| **Total assets** | 1,676,633 | 259,175 | – | 86,097 | 325,503 | 311,553 | 2,658,961 |
| **LIABILITIES** | | | | | | | |
| Other borrowings | – | – | 95,923 | – | – | – | 95,923 |
| Debt securities in issue | – | 6,844 | 6,428 | 425,000 | 100,000 | 500,000 | 1,038,272 |
| Other liabilities | – | 3,305 | 213,922 | – | – | – | 217,227 |
| **Total liabilities** | – | 10,149 | 316,273 | 425,000 | 100,000 | 500,000 | 1,351,422 |
| **Net liquidity gap** | 1,676,633 | 249,026 | (316,273) | (338,903) | 225,503 | (188,447) | 1,307,539 |
| **Cumulative liquidity gap** | 1,676,633 | 1,925,659 | 1,609,386 | 1,270,483 | 1,495,986 | 1,307,539 | |
| **As at 30 June 2017** | | | | | | | |
| **ASSETS** | | | | | | | |
| Cash and balances with the central bank | – | 140,643 | – | – | – | – | 140,643 |
| Financial assets designated at fair value through profit or loss | – | 203,580 | – | – | 100,769 | 201,658 | 506,007 |
| Financial assets at amortised cost | – | – | – | – | – | 200,411 | 200,411 |
| Other assets | – | 32,305 | – | – | – | – | 32,305 |
| Non-financial instruments | 1,313,104 | – | – | – | – | – | 1,313,104 |
| **Total assets** | 1,313,104 | 376,508 | – | – | 100,769 | 402,069 | 2,192,470 |
| **LIABILITIES** | | | | | | | |
| Debt securities in issue | – | – | – | 7,327 | 25,142 | 900,000 | 932,469 |
| Other liabilities | – | 37,126 | – | – | – | – | 37,126 |
| **Total liabilities** | – | 37,126 | – | 7,327 | 25,142 | 900,000 | 969,595 |
| **Net liquidity gap** | 1,313,104 | 339,402 | – | (7,327) | 75,627 | (497,931) | 1,222,875 |
| **Cumulative liquidity gap** | 1,313,104 | 1,652,506 | 1,652,506 | 1,645,179 | 1,720,806 | 1,222,875 | |

The table above represents the group's maturity mismatch between assets and liabilities based on contractual maturities, which represents a worst-case scenario and is therefore not representative of business as usual. Policies and procedures are in place to mitigate liquidity risk, which is detailed in the narrative above, as well as the risk and compliance report. Due to the composition of the market in Namibia, a negative maturity mismatch between assets and liabilities is an industry norm.

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.5 Fair values of financial assets and liabilities**

*(a) Fair value estimation*

The group is presumed to be a going concern and the fair value methodology is therefore appropriate. Fair value is the current price to purchase an asset or to transfer a liability. Such a transaction is characterised by an arm's length and orderly transaction in a free market (neither party is compelled to act), between hypothetical willing, able and well-informed market participants. In addition, the fair value methodology is utilised to accurately reflect the current market conditions and the appropriate market price of such a transaction on the reporting date.

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives, trading and available-for-sale securities) is based on quoted market prices at the reporting date. The active market should be characterised by sufficient supply and demand by market participants, supported by adequate frequency and volumes to accurately approximate the true market price of such a transaction on an ongoing basis. The quoted market price used for financial assets held by the group is the price within the current bid-ask price, which is the most representative of fair value.

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques to approximate the fair value. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. These valuation techniques include quoted market prices or dealer quotes for similar instruments in active and inactive markets, and discounted cash flow valuation techniques.

*(i) Cash and balances with the central bank*

Due to its short-term nature, the carrying amount approximates the fair value of these financial assets.

*(ii) Derivative financial instruments (included in other assets/liabilities)*

Derivative financial instruments are classified as fair value through profit or loss using valuation techniques supported by observable market prices or rates (exchange traded). Over-the-counter (OTC) transactions are also measured at fair value based on the following valuation techniques:

- Forward contracts are valued based on the daily mark-to-market value of the forward contract. The market rates are obtained from the Thompson Reuters foreign currency rate platform. Spot foreign currency transactions not yet matured are marked-to-market based on end of trading day quoted Thompson Reuters market rates.
- Interest rate swaps are valued by discounting the expected future fixed and floating interest rate cash flow streams with the applicable South African money market yield curves. The future fixed rate cash flows are based on the terms of the contractual agreements, while the floating rate cash flows are approximated using the estimated forward rate yield curve in line with contractual agreements.
- Option contract values are determined using the Black-Scholes pricing model, utilising real-time market data on the required inputs.

*(iii) Financial assets designated at fair value through profit or loss*

*Treasury bills*

Treasury bills are designated at fair value through profit or loss based on the discounted valuation technique using quoted market prices and rates.

*Government stock*

*Government stock and other bonds guaranteed by the Namibian, South African or Botswana governments are designated at fair value based on the discounted valuation technique using quoted market prices. The Bond Exchange of South Africa bond pricing model is utilised to determine the fair value.*

*Unit trust investments*

The fair value of unit trust investments is determined with reference to the daily published market prices.

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.5 Fair values of financial assets and liabilities (continued)**

*(a) Fair value estimation (continued)*

*(iii) Financial assets designated at fair value through profit or loss (continued)*

*Money market investments*

For money market investments, the carrying value approximates its fair value.

*Other debt securities*

*Repo investments*

Repo investments are designated at fair value using discounted valuation techniques and available dealer quotes for similar instruments.

*Corporate bonds*

Corporate bonds guaranteed by the respective corporates are designated at fair value based on the discounted valuation technique using quoted market prices.

*(iv) Financial assets at amortised cost*

*Treasury bills*

Treasury bills, without the intention to trade, are classified as held to maturity and recognised at amortised costs. The fair value is determined for disclosure purposes based on the discounted valuation technique using quoted market prices and rates.

*Government stock*

Government stock and other bonds guaranteed by either the Namibian, South African or Zambian governments, without the intention to trade, are classified as held to maturity and recognised at amortised costs. The fair value is determined for disclosure purposes based on the discounted valuation technique using quoted market prices. The Bond Exchange of South Africa bond pricing model is utilised to determine the fair value.

*(v) Investment securities*

*Listed*

For listed investment securities, the fair value is derived by using stock market prices, adjusted for any restrictions on its tradability.

*(vi) Due to and from other banks*

Amounts due to and from other banks include interbank placements. The carrying amount of overnight deposits represents its fair value, as it is short term and callable on demand.

*(vii) Loans and advances to customers*

The loans and advances to customers are recognised at amortised cost. The fair value is determined for disclosure purposes by discounting the future expected cash flows using observable market inputs, such as the prime rate, as appropriate. For short maturity loans and advances the carrying value approximates the fair value. Unobservable market inputs are developed using the best information available that market participants would use when pricing the loan. The credit risk will be approximated by the carrying values of defaulted and impaired accounts. Refer to note 3.5(b) for the disclosure of the fair value of loans and advances.

*(viii) Other assets and liabilities*

The nominal values less impairment of other assets and liabilities are assumed to approximate their fair value, due to the short-term nature of these assets and liabilities.

*(ix) Other borrowings*

Other borrowings are recognised at amortised cost. The fair value is determined for disclosure purposes by discounting the future expected cash flows using observable market inputs, such as the JIBAR money market rate, as appropriate. Refer to note 3.5(b) for the disclosure of the fair value of other borrowings.

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.5 Fair values of financial assets and liabilities (continued)**

*(a) Fair value estimation (continued)*

*(x) Debt securities in issue*

Financial instruments included in this category include senior debt, callable bonds and preference shares issued. The fair value of issued debt securities for disclosure purposes is estimated by discounting the future contractual cash flows at the available market interest rate. Quoted prices for similar instruments are utilised in the event that active prices are not available. The fair values of these instruments were N$4,7 billion (2017: N$4.0 billion), refer to note 3.5(b). The fair value of the issued preference shares approximates the carrying value, due to the floating rate nature of the instruments. Refer to note 26.

*(xi) Deposits*

The carrying amount approximates the fair value of these financial liabilities, except for promissory notes and replica notes. The fair value of promissory notes and replica notes for disclosure purposes is estimated by discounting the future contractual cash flows at the available market interest rate. Quoted prices for similar instruments are utilised in the event that active prices are not available. The fair value of these instruments is N$974,7 million (2017: N$625,4 million), refer to note 3.5(b).

*(xii) Financial instruments not recorded on the statement of financial position*

The estimated fair values of the financial instruments not recorded on the statement of financial position are based on market prices for similar facilities. When this information is not available, fair value is estimated using discounted cash flow analysis.

*(b) Fair value hierarchy*

IFRS specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like JIBAR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The group considers relevant and observable market prices in its valuations where possible.

# Notes to the consolidated annual financial statements (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

*(b) Fair value hierarchy (continued)*

| Group | Level 1 N$'000 | Level 2 N$'000 | Level 3 N$'000 | Total N$'000 |
|---|---|---|---|---|
| **As at 30 June 2018** | | | | |
| **Financial assets measured at fair value** | | | | |
| *Financial assets designated at fair value through profit or loss* | 1,091,826 | 4,154,155 | – | 5,245,981 |
| – Treasury bills | – | 3,221,439 | – | 3,221,439 |
| – Government stock | – | 438,741 | – | 438,741 |
| – Unit trust investments | – | 42,056 | – | 42,056 |
| – Money market investments | 1,091,826 | – | – | 1,091,826 |
| – Tradable instruments | – | 411,707 | – | 411,707 |
| – Other instruments | – | 40,212 | – | 40,212 |
| *Available-for-sale financial assets* | | | | |
| – Investment securities – listed | 134,028 | – | – | 134,028 |
| | 1,225,854 | 4,154,155 | – | 5,380,009 |
| **Financial assets for which the fair value is disclosed** | | | | |
| *Loans and advances to customers* | – | – | 36,897,068 | 36,897,068 |
| *Financial assets at amortised cost* | – | 954,753 | – | 954,753 |
| – Treasury bills | – | 244,647 | – | 244,647 |
| – Government stock | – | 710,106 | – | 710,106 |
| | – | 954,753 | 36,897,068 | 37,851,821 |
| **Financial liabilities measured at fair value** | | | | |
| *Financial liabilities at fair value through profit or loss* | | | | |
| – Derivative financial instruments (included in other liabilities) | – | 5,535 | – | 5,535 |
| **Financial liabilities for which the fair value is disclosed** | | | | |
| *Other borrowings* | – | – | 1,352,570 | 1,352,570 |
| *Debt securities in issue* | – | – | 4,738,778 | 4,738,778 |
| – Five-year callable bonds | – | – | 248,057 | 248,057 |
| – Senior debt | – | – | 3,452,449 | 3,452,449 |
| – Preference shares | – | – | 530,883 | 530,883 |
| – Debentures | – | – | 507,389 | 507,389 |
| *Deposits* | – | – | 974,680 | 974,680 |
| – Promissory notes | – | – | 918,626 | 918,626 |
| – Replica notes | – | – | 56,054 | 56,054 |
| | – | – | 7,066,028 | 7,066,028 |

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.5 Fair values of financial assets and liabilities (continued)**

*(b) Fair value hierarchy (continued)*

| Group | Level 1 N$'000 | Level 2 N$'000 | Level 3 N$'000 | Total N$'000 |
|---|---|---|---|---|
| **As at 30 June 2017** | | | | |
| **Financial assets measured at fair value** | | | | |
| *Financial assets designated at fair value through profit or loss* | 1,116,990 | 2,851,645 | – | 3,968,635 |
| – Treasury bills | – | 2,304,271 | – | 2,304,271 |
| – Government stock | – | 211,018 | – | 211,018 |
| – Unit trust investments | – | 24,103 | – | 24,103 |
| – Money market investments | 1,116,990 | – | – | 1,116,990 |
| – Tradable instruments | – | 302,427 | – | 302,427 |
| – Other instruments | – | 9,826 | – | 9,826 |
| *Available-for-sale financial assets* | | | | |
| – Investment securities – listed | 149,381 | – | – | 149,381 |
| | 1,266,371 | 2,851,645 | – | 4,118,016 |
| **Financial assets for which the fair value is disclosed** | | | | |
| *Loans and advances to customers* | – | – | 33,902,486 | 33,902,486 |
| *Financial assets at amortised cost* | – | 322,285 | – | 322,285 |
| – Treasury bills | – | 276,437 | – | 276,437 |
| – Government stock | – | 45,848 | – | 45,848 |
| | – | 322,285 | 33,902,486 | 34,224,771 |
| **Financial liabilities measured at fair value** | | | | |
| *Financial liabilities at fair value through profit or loss* | | | | |
| – Derivative financial instruments (included in other liabilities) | – | 8,622 | – | 8,622 |
| **Financial liabilities for which the fair value is disclosed** | | | | |
| *Other borrowings* | – | – | 1,165,739 | 1,165,739 |
| *Debt securities in issue* | – | – | 4,033,129 | 4,033,129 |
| – Five-year callable bonds | – | – | 246,794 | 246,794 |
| – Senior debt – unsecured | – | – | 2,853,866 | 2,853,866 |
| – Debentures | – | – | 907,327 | 907,327 |
| – Preference shares | – | – | 25,142 | 25,142 |
| *Deposits* | – | – | 625,378 | 625,378 |
| – Promissory notes | – | – | 506,406 | 506,406 |
| – Replica notes | – | – | 118,972 | 118,972 |
| | – | – | 5,824,246 | 5,824,246 |

# Notes to the consolidated annual financial statements (continued)

3. **FINANCIAL RISK MANAGEMENT (continued)**

3.5 **Fair values of financial assets and liabilities (continued)**

*(b) Fair value hierarchy (continued)*

| Company | Level 1 N$'000 | Level 2 N$'000 | Level 3 N$'000 | Total N$'000 |
|---|---|---|---|---|
| **As at 30 June 2018** | | | | |
| **Financial assets measured at fair value** | | | | |
| *Financial assets designated at fair value through profit or loss* | 31,972 | 521,201 | – | 553,173 |
| – Government stock | – | 109,494 | – | 109,494 |
| – Money market investments | 31,972 | – | – | 31,972 |
| – Tradable instruments | – | 411,707 | – | 411,707 |
| | 31,972 | 521,201 | – | 553,173 |
| **Financial assets for which the fair value is disclosed** | | | | |
| *Financial assets at amortised cost* | – | – | 202,060 | 202,060 |
| – Preference shares | – | – | 202,060 | 202,060 |
| | – | – | 202,060 | 202,060 |
| **Financial liabilities for which the fair value is disclosed** | | | | |
| *Other borrowings* | – | – | 95,923 | 95,923 |
| *Debt securities in issue* | – | – | 1,038,272 | 1,038,272 |
| – Preference shares | – | – | 530,883 | 530,883 |
| – Debentures | – | – | 507,389 | 507,389 |
| | – | – | 1,134,195 | 1,134,195 |

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.5 Fair values of financial assets and liabilities (continued)**

*(b) Fair value hierarchy (continued)*

| Company | Level 1 N$'000 | Level 2 N$'000 | Level 3 N$'000 | Total N$'000 |
|---|---|---|---|---|
| **As at 30 June 2017** | | | | |
| **Financial assets measured at fair value** | | | | |
| *Financial assets designated at fair value through profit or loss* | 203,580 | 302,427 | – | 506,007 |
| – Money market investments | 203,850 | – | – | 203,580 |
| – Tradable instruments | – | 302,427 | – | 302,427 |
| | 203,580 | 302,427 | – | 506,007 |
| **Financial assets for which the fair value is disclosed** | | | | |
| *Financial assets at amortised cost* | – | – | 200,411 | 200,411 |
| – Preference shares | – | – | 200,411 | 200,411 |
| | – | – | 200,411 | 200,411 |
| **Financial liabilities for which the fair value is disclosed** | | | | |
| *Debt securities in issue* | – | – | 932,469 | 932,469 |
| – Preference shares | – | – | 25,142 | 25,142 |
| – Debentures | – | – | 907,327 | 907,327 |
| | – | – | 932,469 | 932,469 |

No transfers between level 1, level 2 or level 3 fair value measurements occurred during the year under review.

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.5 Fair values of financial assets and liabilities (continued)**

*(c) Sensitivity analysis*

The sensitivity analysis performed below are for financial instruments for which the fair value is disclosed. Sensitivity analysis performed on financial instruments recognised at fair value are included in note 3.3.4.

| | Group | |
|---|---|---|
| | **2018 N$'000** | **2017 N$'000** |
| The following is a sensitivity analysis showing the increase/(decrease) in the fair value of loans and advances had the following changes arisen on the significant inputs: | | |
| 100 basis points increase in discount rate | **(1,129,745)** | (916,628) |
| 100 basis points decrease in discount rate | **1,218,697** | 988,576 |
| 100 basis points increase in earnings rate | **148,343** | 115,728 |
| 100 basis points decrease in earnings rate | **(148,343)** | (129,689) |
| 1 month increase in term to maturity | **(55,481)** | (34,939) |
| 1 month decrease in term to maturity | **53,446** | 34,266 |
| The following is a sensitivity analysis showing the increase/(decrease) in the fair value of treasury bills at amortised cost had the following changes arisen on the significant inputs: | | |
| 100 basis points increase in discount rate | **(243)** | (129) |
| 100 basis points decrease in discount rate | **248** | 131 |
| The following is a sensitivity analysis showing the increase/(decrease) in the fair value of government stock at amortised cost had the following changes arisen on the significant inputs: | | |
| 100 basis points increase in discount rate | **(1,043)** | (1,186) |
| 100 basis points decrease in discount rate | **1,056** | 1,289 |
| The following is a sensitivity analysis showing the increase/(decrease) in the fair value of other borrowings had the following changes arisen on the significant inputs: | | |
| 100 basis points increase in discount rate | **9,590** | 11,866 |
| 100 basis points decrease in discount rate | **(49,257)** | (45,046) |
| 100 basis points increase in JIBAR rate | **(39,089)** | (47,637) |
| 100 basis points decrease in JIBAR rate | **27,089** | 15,774 |

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.5 Fair values of financial assets and liabilities (continued)**

*(c) Sensitivity analysis (continued)*

| | Group | |
|---|---|---|
| | **2018 N$'000** | **2017 N$'000** |
| The following is a sensitivity analysis showing the increase/(decrease) in the fair value of debt securities had the following changes arisen on the significant inputs: | | |
| 100 basis points increase in discount rate | **(82,243)** | (82,123) |
| 100 basis points decrease in discount rate | **86,324** | 87,478 |
| 100 basis points increase in coupon rate | **87,805** | 90,452 |
| 100 basis points decrease in coupon rate | **(87,805)** | (90,452) |
| The following is a sensitivity analysis showing the increase/(decrease) in the fair value of promissory notes had the following changes arisen on the significant inputs: | | |
| 100 basis points increase in discount rate | **(5,723)** | (3,698) |
| 100 basis points decrease in discount rate | **6,951** | 3,754 |
| The following is a sensitivity analysis showing the increase/(decrease) in the fair value of replica notes had the following changes arisen on the significant inputs: | | |
| 100 basis points increase in discount rate | **(23)** | (724) |
| 100 basis points decrease in discount rate | **23** | 731 |
| 100 basis points increase in coupon rate | **140** | 967 |
| 100 basis points decrease in coupon rate | **(140)** | (967) |

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.5 Fair values of financial assets and liabilities (continued)**

*(d) Details of level 2 and level 3 fair value instruments*

| | Valuation technique | Types of valuation inputs | Valuation inputs (ranges) 2018 | Valuation inputs (ranges) 2017 |
|---|---|---|---|---|
| **Financial assets measured at fair value** | | | | |
| *Financial assets designated at fair value through profit or loss* | | | | |
| Treasury bills | Income approach* | Note 1 | **BW: 6.8% – 8.2%<br>BG: 1.2% – 1.5%** | BW: 6.4% – 8.5% |
| Government stock | Income approach* | Note 1 | **BW & Entrepo: 7.3% – 10.4%** | BW: 8.5% – 11.0% |
| Unit trust investments | Market approach** | Note 4 | **Note 4** | Note 4 |
| – OTC currency options | Income approach* | Note 1 | **EUR14.5 – 16.6<br>US$11.9 – 12.1** | EUR14.1 –15.6<br>US$14.6 – 13.0 |
| Other debt securities | | | | |
| – Corporate bonds | Income approach* | Note 1 | **BW: 8.9%** | BW: 10.1% |
| **Financial assets for which the fair value is disclosed** | | | | |
| *Loans and advances to customers* | Income approach* | | | |
| – Discount rate | | Note 1 | **BW: 10.5%<br>BG: 6.5%<br>CB: 10.0% & 29.3%<br>Entrepo: 18.5% – 21.5%** | BW: 10.75%<br>BG: 7.0%<br>CB: 10.0% & 28.0% |
| – Earnings rate | | Note 2 | **BW: 6.3% – 19.7%<br>BG: 4.5% – 32.0%<br>CB: 0.0% – 33.5%<br>Entrepo: 18.5% – 21.5%** | BW: 6.3% – 17.2%<br>BG: 4.5% – 30.5%<br>CB: 0% – 34.0% |
| – Term to maturity | | Note 3 | **3 – 360 mth** | 3 – 360 mth |
| *Financial assets at amortised cost* | | | | |
| Treasury bills | Income approach* | Note 1 | **BW: 6.4% – 8.2%<br>CB: 4.8% – 15.5%** | BW: 6.4% – 8.5%<br>CB: 3.0% – 19.9% |
| Government stock | Income approach* | Note 1 | **BW: 7.3% – 10.1%<br>CB: 16.0% – 25.0%** | BW: 8.5% – 11.0%<br>CB: 13.5% – 25.0% |
| **Financial liabilities measured at fair value** | | | | |
| *Financial liabilities at fair value through profit or loss* | | | | |
| Derivative financial instruments | Income approach* | Note 1 | **BW: 7.2% – 8.5%** | BW: 7.2% – 8.5% |

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.5 Fair values of financial assets and liabilities (continued)**

*(d) Details of level 2 and level 3 fair value instruments (continued)*

| | Valuation technique | Types of valuation inputs | Valuation inputs (ranges) 2018 | Valuation inputs (ranges) 2017 |
|---|---|---|---|---|
| **Financial liabilities for which the fair value is disclosed** | | | | |
| *Other borrowings* | Income approach* | | | |
| – Discount rate | | Note 1 | **BW: 7.6% – 11.8%**<br>**CG: 4.3%*****| BW: 10.0% – 11.8% |
| – Earnings rate | | Note 1 | **BW: 8.2% – 12.0%**<br>**CG: 4.3%***** | BW: 8.9% – 12.4% |
| *Debt securities in issue* | | | | |
| Five-year callable bonds | Income approach* | Note 1 | **BW: 9.8%**<br>**BG: 5.8%** | BW: 9.8% |
| Senior debt – unsecured | Income approach* | Note 1 | **BW: 7.0% – 11.3%**<br>**BG: 3.2% – 7.8%** | BW: 7.3% – 13.4% |
| Debentures | Income approach* | Note 1 | **BW: 7.0% – 11.3%**<br>**BG: 3.2% – 7.8%** | BW: 7.3% – 9.6% |
| *Deposits* | | | | |
| Promissory notes | Income approach* | Note 1 | **BW: 7.5% – 8.2%** | 8.2% – 8.6% |
| Replica notes | Income approach* | Note 1 | **BW: 7.3%** | 8.6% – 9.5% |

For the relationship of observable inputs to fair value refer to note 3.3.4 for items measured at fair value and note 3.5(c) for items disclosed at fair value.

| | |
|---|---|
| * | *Present value of expected future cash flows.* |
| ** | *The fair value is determined with reference to the daily published market prices.* |
| *** | *Loan denominated in US Dollars.* |
| *Note 1:* | *Observable interest rates and yield curves observable at commonly quoted intervals.* |
| *Note 2:* | *Contractual interest rates per transaction observable on the banking system.* |
| *Note 3:* | *Contractual maturities per transaction observable on the banking system.* |
| *Note 4:* | *Valuations are performed per fund based on the net asset value of the underlying assets.* |
| *BG:* | *Bank Gaborone Ltd* |
| *BW* | *Bank Windhoek Ltd* |
| *CB:* | *Cavmont Bank Ltd* |
| *CG:* | *Capricorn Group* |

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.6 Capital management**

The group's objectives when managing capital, which is a broader concept than the "equity" on the face of the statement of financial position, are to:

- comply with the capital requirements set by the regulators of the banking markets where the entities within the group operate;
- safeguard the group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- maintain a strong capital base to support the development of its business.

*Capital management for the banking group*

The Bank of Namibia requires each bank or banking group to maintain the following capital adequacy ratios:

- Tier 1 capital to total assets, as reported in the statutory return, at a minimum of 6%, referred to as the leverage capital ratio;
- Tier 1 capital to risk-weighted assets at a minimum of 7%, referred to as Tier 1 risk-based capital ratio; and
- total regulatory capital to risk-weighted assets at a minimum of 10%, referred to as total risk-based capital ratio.

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

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

The Bank of Namibia has adopted a standardised approach to Basel II, with risk-weighted assets being measured at three different levels, operational risk, market risk and credit risk.

During 2012, the Bank of Namibia introduced BID 24 – "Consolidated supervision", which denotes consolidation rules only for the purposes of computing regulatory minimum capital requirements. These rules do not impact on accounting consolidation of banking groups, which is done in accordance with IFRS. Although regulatory consolidation may track the accounting consolidation, it is not identical because of a different approach that is prescribed or required for treatment of certain types of transactions and/or subsidiaries. According to the statutory framework, the group entities are treated as follows in the Capricorn Group:

| Subsidiaries | Consolidated supervision approach | Accounting consolidation approach |
|---|---|---|
| Bank Windhoek Ltd | Full consolidation | Full consolidation |
| Namib Bou (Pty) Ltd | Deduction approach | Full consolidation |
| Capricorn Unit Trust Management Company Ltd | Deduction approach | Full consolidation |
| Capricorn Asset Management (Pty) Ltd | Deduction approach | Full consolidation |
| Capricorn Investment Holdings (Botswana) Ltd (CIHB) | Full consolidation | Full consolidation |
| Cavmont Capital Holdings Zambia Plc (CCHZ) | Full consolidation | Full consolidation |
| Capricorn Capital (Pty) Ltd | Deduction approach | Full consolidation |
| Mukumbi Investments (Pty) Ltd | Deduction approach | Full consolidation |

| Associates | Consolidated supervision approach | Accounting consolidation approach |
|---|---|---|
| Sanlam Namibia Holdings (Pty) Ltd | Deduction approach | Equity accounted associates |
| Santam Namibia Ltd | Deduction approach | Equity accounted associates |
| Nimbus Infrastructure Ltd | Deduction approach | Equity accounted associates |

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.6 Capital management (continued)**

Deduction approach means deductions of 50% of the cost of investment in the affiliate is made from Tier 1 capital and 50% from Tier 2 capital.

The table below summarises the composition of regulatory capital and the ratios of Capricorn Group for the years ended 30 June, at consolidated supervision level. During these two years, the individual entities within the group complied with all externally imposed capital requirements to which they are subjected.

| | Capricorn Group | |
|---|---|---|
| | **2018 N$'000** | **2017 N$'000** |
| **Tier 1 capital** | | |
| Share capital and premium | **769,933** | 727,264 |
| General banking reserves | **3,814,879** | 3,354,609 |
| Retained earnings | **1,388,980** | 1,417,173 |
| Minority interests | **276,499** | 154,533 |
| **Subtotal** | **6,250,291** | 5,653,579 |
| Deduct: 50% investments in group entities | | |
| Goodwill | **(101,489)** | (85,599) |
| 50% investments in deconsolidated financial subsidiaries, significant minority and majority insurance entities and significant commercial entities | **(310,919)** | (162,749) |
| **Net total Tier 1 capital** | **5,837,883** | 5,405,231 |
| | | |
| **Tier 2 capital** | | |
| Subordinated debt | **253,158** | 276,471 |
| Five-year callable bonds | **253,158** | 251,329 |
| Preference shares | **–** | 25,142 |
| Portfolio impairment | **–** | 355,916 |
| **Subtotal** | **253,158** | 632,387 |
| Deduct: 50% investments in group entities | | |
| 50% investments in deconsolidated financial subsidiaries, significant minority and majority insurance entities and significant commercial entities | **(133,588)** | (120,150) |
| **Net total Tier 2 capital** | **119,570** | 512,237 |
| **Total regulatory capital** | **5,957,453** | 5,917,468 |
| | | |
| **Risk-weighted assets:** | | |
| Operational risk | **4,623,353** | 3,937,320 |
| Credit risk | **33,606,443** | 30,913,912 |
| Market risk | **500,225** | 355,991 |
| **Total risk-weighted assets** | **38,730,021** | 35,207,223 |

# Notes to the consolidated annual financial statements (continued)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.6 Capital management (continued)**

| | Capricorn Group | |
|---|---|---|
| | 2018 N$'000 | 2017 N$'000 |
| The increase in risk-weighted assets during the year is mainly attributable to the increase in credit risk, which relates to the growth in loans and advances and the acquisition of Entrepo during the year under review. | | |
| **Capital adequacy ratios:** | | |
| Leverage capital ratio | **11.8%** | 13.0% |
| Tier 1 risk-based capital ratio | **15.1%** | 15.4% |
| Total risk-based capital ratio | **15.4%** | 16.8% |

In addition to the above minimum capital requirements, the Bank of Namibia requires the group to perform an internal capital adequacy and assessment process (ICAAP) in terms of Pillar II of Basel II, which has been documented and approved by the board. The process results in:

- the identification of all significant risk exposures to the banking group;
- the quantification of risk appetites for the major risks identified; and
- control measures to mitigate the major risks.

Based on the ICAAP assessment performed on 30 November 2017, which includes a capital projection for the next five years, it is envisaged that the group will be able to maintain its capital ratios and will not require additional capital.

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

The group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*(a) Impairment losses on loans and advances*

Estimates in assessing the portfolio impairment are dependent on the analysis of historical data relating to probability of default, emergence period and loss given default. Specific impairment is triggered for individual non-performing loans and special mention accounts. Non-performing loans comprise loans due and unpaid for longer than 90 days.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to notes 2.4 and 3.2.5 for more information on assumptions and judgements applied when determining the impairment of loans and advances.

*(b) Fair value of financial instruments*

The fair value of financial instruments requires the use of estimates and judgements. Refer to note 3.5 for methodology and assumptions applied.

*(c) Post-employment benefits*

The present value of the severance pay liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of the liability. The assumptions used in determining the net cost include the discount rate. The group determined this discount rate based on the yield of South African government bonds. Other key assumptions are based on generally accepted demographic tables. Refer to note 30.

# Notes to the consolidated annual financial statements (continued)

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)**

*(d) Share-based payments*

For share-based payment transactions among group entities, in its separate or group financial statements, the entity receiving the services shall measure the services received as either an equity-settled or a cash-settled share-based payment transaction by assessing:

- the nature of the awards granted; and
- its own rights and obligations.

The amount recognised by the entity receiving the services may differ from the amount recognised by the consolidated group or by another group entity settling the share-based payment transaction.

The entity receiving the services shall measure the services received as an equity-settled share-based payment transaction when:

- the awards granted are its own equity instruments; or
- the entity has no obligation to settle the share-based payment transaction.

In terms of the share scheme arrangements, the awards granted are Capricorn Group shares, thus the share schemes are treated as equity-settled.

IFRS 2 requires an entity to measure the fair value of the employee services received by reference to the fair value of the equity instruments granted. This fair value depends on a number of factors that are determined on an actuarial basis, at grant date, using a number of assumptions. Any changes in these assumptions will impact the expense and share-based compensation reserve created at grant date. For assumptions made in the valuation of share-based payments refer to note 33.

*(e) Impairment of goodwill*

The recoverable amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. The recoverable amount of the cash generating units (CGU) has been determined based on value-in-use calculations, being the net present value of the discounted cash flows of the CGU. Refer to note 22.

*Treatment of income and expenses*

As a result of the above, Capricorn Group's operating model changed during the year under review to include its role as lender and provider of funding to banking entities in the group. Consequently the finance costs paid and investment income received by Capricorn Group on its group financing activities, are treated as revenue in the company and consolidated financial statements, similar to that of a banking entity, and disclosed as interest expense and interest income respectively.

*Policyholder liability*

Policyholder benefit payments are generally fixed or relatively easy to estimate, thereby limiting the uncertainty as to the expected liability of a particular policy. The reinsurance terms of each policy are also known in advance and the allowance for reinsurance recoveries is readily ascertainable, although the timing of benefit payments must be estimated. The estimate of this timing is based on the probability that a policy will be in force and the probability of the claim arising in the future from the valuation date until the expiry of the term of the policy, modified for past experience.

For each policy the present value of the expected benefit payment is estimated based on the future surrender, mortality, retrenchment, medical and morbidity rates of policyholders, modified to reflect the recent claims experience of the group.
The assumptions used are generally best estimate assumptions with compulsory margins and, where appropriate, discretionary margins being provided to cater for uncertainty. The discount rate used to capitalise the policyholder benefit values is also based on current economic conditions but reflects the group's asset mix with an allowance for mismatching risk.

# Notes to the consolidated annual financial statements (continued)

## 5. NET INTEREST INCOME

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| ***Interest and similar income*** | | | | |
| ***Amortised cost*** | | | | |
| Loans and advances | 3,743,277 | 3,300,080 | – | – |
| Cash and short-term funds | 133,635 | 120,360 | 3,626 | – |
| Financial assets at amortised cost | 64,255 | 15,927 | 13,234 | 3,824 |
| Treasury bills | 33,481 | 13,632 | – | – |
| Government stock and other investments | 30,774 | 2,295 | – | – |
| Preference shares | – | – | 13,234 | 3,824 |
| ***Fair value*** | | | | |
| Financial assets designated at fair value through profit or loss | 303,048 | 190,110 | 51,491 | 6,015 |
| Treasury bills | 192,311 | 170,588 | – | – |
| Government stock and other investments | 110,737 | 13,507 | 51,491 | – |
| Other debt securities | – | 6,015 | – | 6,015 |
| **Total interest and similar income** | 4,244,215 | 3,626,477 | 68,351 | 9,839 |
| ***Interest and similar expenses*** | | | | |
| ***Amortised cost*** | | | | |
| Demand deposits | 239,118 | 233,652 | – | – |
| Term and notice deposits | 779,300 | 534,781 | – | – |
| Negotiable certificates of deposits | 547,128 | 501,593 | – | – |
| Cheque deposits | 199,998 | 194,133 | – | – |
| Debt securities in issue | 343,000 | 234,838 | 36,645 | 14,499 |
| Savings deposits | 67,323 | 63,362 | – | – |
| Deposits from banks and financial institutions | 20,914 | 19,414 | – | – |
| Other | 228,537 | 195,207 | 39,374 | 1,685 |
| **Total interest and similar expenses** | 2,425,318 | 1,976,980 | 76,019 | 16,184 |
| **Net interest income** | 1,818,897 | 1,649,497 | (7,668) | (6,345) |

## 6. IMPAIRMENT CHARGES ON LOANS AND ADVANCES

| | Group 2018 N$'000 | Group 2017 N$'000 |
|---|---|---|
| Increase in specific impairment (note 17) | 108,012 | 55,032 |
| (Decrease)/increase in portfolio impairment (note 17) | (13,068) | 9,522 |
| Amounts recovered during the year | (14,104) | (6,556) |
| | 80,840 | 57,998 |

## 7. NON-INTEREST INCOME

### 7.1 Fee and commission income

| | Group 2018 N$'000 | Group 2017 N$'000 |
|---|---|---|
| Transaction and related fees | 827,344 | 720,900 |
| Commissions | 42,931 | 39,945 |
| Other | 15,171 | 16,415 |
| | 885,446 | 777,260 |

# Notes to the consolidated annual financial statements (continued)

## 7. NON-INTEREST INCOME (continued)

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| 7.2 | **Net trading income** | | | | |
| | Net foreign exchange gains and losses from trading assets | **89,695** | 80,328 | **–** | – |
| | Net gain from financial instruments designated at fair value through profit or loss | **9,029** | 21,081 | **(10,767)** | (1,458) |
| | | **98,724** | 101,409 | **(10,767)** | (1,458) |
| | Net foreign exchange gains and losses from trading assets includes gains and losses from spot and forward exchange contracts and translation of foreign currency assets and liabilities. | | | | |
| | Net gain from financial instruments designated at fair value through profit or loss includes the gains and losses from treasury bills, government stock and derivative financial instruments. | | | | |
| 7.3 | **Other operating income** | | | | |
| | Asset management and administration fees | **101,230** | 82,589 | **–** | – |
| | Commission and insurance related income | **865** | 6,276 | **865** | 6,276 |
| | Contingent consideration and indemnities received | **–** | – | **8,000** | 14,361 |
| | Dividend received – ordinary shares | **–** | 651 | **429,492** | 257,447 |
| | Dividend received – BW Corporate Funds (deemed interest) | **4,520** | 6,597 | **3,664** | 4,902 |
| | Dividend received – preference shares | **11,763** | 14,925 | **11,763** | 14,925 |
| | Gain on bargain purchase of subsidiary | **38,837** | – | **–** | – |
| | Interest received | **–** | 408 | **1,142** | 8,064 |
| | Net foreign exchange gains and losses | **–** | – | **1,223** | 1,932 |
| | Profit on sale of property, plant and equipment | **(66)** | 276 | **–** | – |
| | Profit on sale of investment securities | **77,330** | – | **–** | – |
| | Profit on sale of residential units | **5,600** | 2,531 | **–** | – |
| | Support services rendered | **–** | 2,355 | **46,458** | 41,195 |
| | Other | **919** | 2,908 | **607** | 991 |
| | | **240,998** | 119,516 | **503,214** | 350,093 |
| | **Total non-interest income** | **1,225,168** | 998,185 | **492,447** | 348,635 |

## 8. STAFF COSTS

| | Group 2018 N$'000 | Group 2017 N$'000 | Company 2018 N$'000 | Company 2017 N$'000 |
|---|---|---|---|---|
| Salaries and wages | **874,101** | 651,691 | **57,123** | 37,485 |
| Share-based payment expense | **8,921** | 9,126 | **2,350** | 3,263 |
| Staff training costs | **18,450** | 11,795 | **3,011** | 2,263 |
| Pension costs – defined contribution plan | **54,559** | 44,209 | **3,278** | 3,494 |
| Adjustment to fair value for interest free loans (note 17) | **483** | 5,434 | **–** | – |
| Severance pay liability (note 30) | **2,692** | 731 | **–** | – |
| | **959,206** | 722,986 | **65,762** | 46,505 |

# Notes to the consolidated annual financial statements (continued)

## 9. OPERATING EXPENSES

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| *Expenses by nature* | | | | |
| Advertising and marketing | **34,560** | 30,633 | **5,055** | 3,180 |
| Amortisation of intangible assets (note 22) | **49,827** | 24,960 | **–** | – |
| Association transaction fees | **103,409** | 104,060 | **–** | – |
| Auditor's remuneration | | | | |
| – Audit fees | **8,875** | 5,324 | **460** | 435 |
| – Fees for other services | **893** | 1,565 | **176** | 399 |
| Cash handling | **9,395** | 8,525 | **–** | – |
| Commission | **7,142** | 10,679 | **–** | – |
| Non-executive directors' emoluments | **8,706** | 6,850 | **4,606** | 3,395 |
| Depreciation of property, plant and equipment (note 23) | **47,261** | 48,035 | **–** | – |
| Finance costs | **2,805** | 1,743 | **2,454** | 1,743 |
| Insurance costs | **6,608** | 3,987 | **–** | – |
| Intragroup consultancy and management fees | **–** | – | **–** | 223 |
| Loss on sale of subsidiary | **–** | 3,309 | **–** | 4,127 |
| Motor vehicle costs | **3,285** | 2,870 | **–** | – |
| Office expense | **6,057** | 6,502 | **300** | – |
| Operating lease rentals – immovable property | **103,069** | 82,974 | **15** | – |
| Professional services | **75,962** | 89,213 | **12,350** | 14,417 |
| Repairs and maintenance | **46,494** | 27,103 | **–** | – |
| Security expenses | **23,318** | 16,444 | **–** | – |
| Staff costs (note 8) | **959,206** | 722,986 | **65,762** | 46,505 |
| Stamp duty | **16,616** | 14,156 | **506** | 398 |
| Stationery and printing | **18,394** | 16,555 | **68** | 25 |
| Subscription fees | **8,934** | 10,302 | **186** | 151 |
| Technology costs | **91,691** | 78,278 | **199** | 348 |
| Telephone, postage and courier costs | **17,085** | 17,955 | **51** | 39 |
| Travelling | **12,719** | 9,924 | **2,029** | 2,150 |
| Valuation fees | **8,145** | 5,047 | **–** | – |
| Water and electricity | **24,753** | 19,922 | **–** | – |
| Other expenses | **99,899** | 25,104 | **3,682** | 6,391 |
| | **1,795,108** | 1,395,005 | **97,899** | 83,926 |

Research and development costs of N$0.4 million (2017: N$0.5 million) are included in operating expenses above.

# Notes to the consolidated annual financial statements (continued)

## 10. SHARE OF ASSOCIATES' RESULTS AFTER TAX

| | Group 2018 N$'000 | Group 2017 N$'000 | Company 2018 N$'000 | Company 2017 N$'000 |
|---|---|---|---|---|
| The following represents Capricorn Group's share of the associates' after tax results: | | | | |
| Profit before taxation | **104,498** | 95,169 | | |
| Taxation | **(21,262)** | (17,069) | | |
| | **83,236** | 78,100 | | |

## 11. INCOME TAX EXPENSE

### 11.1 Normal tax

| | Group 2018 N$'000 | Group 2017 N$'000 | Company 2018 N$'000 | Company 2017 N$'000 |
|---|---|---|---|---|
| Current tax | **325,659** | 349,028 | **–** | – |
| – current year | **325,659** | 349,028 | **–** | – |
| – prior year | **–** | – | **–** | – |
| Deferred tax | **(7,593)** | 7,224 | **(6,245)** | – |
| – current year | **(7,593)** | 7,224 | **(6,245)** | – |
| – prior year | **–** | – | **–** | – |
| **Total normal tax** | **318,066** | 356,252 | **(6,245)** | – |

### 11.2 Tax rate reconciliation

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:

| | Group 2018 N$'000 | Group 2017 N$'000 | Company 2018 N$'000 | Company 2017 N$'000 |
|---|---|---|---|---|
| Profit before tax and share of associates' results after tax | **1,169,265** | 1,195,773 | **386,880** | 258,364 |
| Tax at the applicable tax rate of 32% (2017: 32%) | **374,165** | 382,647 | **123,802** | 82,676 |
| Dividends received | **(38,198)** | (28,677) | **(142,423)** | (88,728) |
| Other non-taxable income | **(42,601)** | (10,426) | **(4,555)** | (5,979) |
| Non-deductible expenses | **36,376** | 17,966 | **20,202** | 14,339 |
| Unrecognised deferred tax asset | **–** | (2,308) | **–** | (2,308) |
| Utilised tax loss previously not recognised | **(3,271)** | – | **(3,271)** | – |
| Difference in tax rates | **(8,405)** | (2,950) | **–** | – |
| **Income tax expense** | **318,066** | 356,252 | **(6,245)** | – |
| **Effective tax rate** | **27.2%** | 29.8% | **(1.6%)** | 0.0% |

## 12. EARNINGS AND HEADLINE EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the group's profit attributable to the equity holders of the parent entity for the year, by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the company and held as treasury shares.

Headline earnings per share is calculated by dividing the group's profit for the year attributable to the equity holders of the parent entity after excluding identifiable remeasurements, net of tax, by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the company and held as treasury shares.

| | 2018 | | |
|---|---|---|---|
| **Group** | **Gross N$'000** | **Taxation N$'000** | **Net N$'000** |
| *Earnings* | | | |
| Profit for the year attributable to the equity holders of the parent entity | | | **922,556** |
| *Headline adjustments* | **(116,273)** | **–** | **(116,273)** |
| Gain on bargain purchase | **(38,837)** | **–** | **(38,837)** |
| Fair value gain on disposal of shares | **(77,300)** | **–** | **(77,300)** |
| Other | **(136)** | **–** | **(136)** |
| Headline earnings | | | **806,283** |

| | 2017 | | |
|---|---|---|---|
| | **Gross N$'000** | **Taxation N$'000** | **Net N$'000** |
| *Earnings* | | | |
| Profit for the year attributable to the equity holders of the parent entity | | | 909,429 |
| *Headline adjustments* | 6,243 | – | 6,243 |
| Loss on sale of subsidiary | 3,309 | – | 3,309 |
| Other | 2,934 | – | 2,934 |
| Headline earnings | | | 915,672 |

| | Group | |
|---|---|---|
| | **2018** | **2017** |
| Number of ordinary shares in issue at year-end ('000) (note 31) | **512,496** | 509,939 |
| Adjusted for shares issued during the year ('000) | **(1,730)** | (5,799) |
| Weighted average number of ordinary shares in issue during the year ('000) | **510,766** | 504,140 |
| Adjusted for effect of future share-based payment transactions ('000) | **880** | 1,198 |
| Diluted weighted average number of ordinary shares in issue during the year ('000) | **511,646** | 505,338 |
| *Earnings per ordinary share (cents)* | | |
| Basic | **180.6** | 180.4 |
| Fully diluted | **180.3** | 180.0 |
| *Headline earnings per ordinary share (cents)* | | |
| Basic | **157.9** | 181.6 |
| Fully diluted | **157.6** | 181.2 |

# Notes to the consolidated annual financial statements (continued)

## 13. CASH AND BALANCES WITH THE CENTRAL BANK

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| Cash balances | **363,917** | 318,734 | **104,123** | 140,643 |
| Balances with the central bank other than mandatory reserve deposits | **653,615** | 549,540 | **–** | – |
| Included in cash and cash equivalents | **1,017,532** | 868,274 | **104,123** | 140,643 |
| Mandatory reserve deposits with the respective central banks | **625,025** | 674,796 | **–** | – |
| | **1,642,557** | 1,543,070 | **104,123** | 140,643 |

Mandatory reserve deposits are not available for use in the group's day-to-day operations. Balances with the central bank other than mandatory deposits are interest sensitive. Cash balances as well as mandatory reserve deposits with the central bank are non-interest-bearing. Cash balances for the company reflects bank balances with Bank Windhoek Ltd.

## 14. FINANCIAL ASSETS

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| **Financial assets designated at fair value through profit or loss** | | | | |
| Treasury bills | **3,221,439** | 2,304,271 | **–** | – |
| Government stock | **438,741** | 211,018 | **109,494** | – |
| Unit trust investments | **42,056** | 24,103 | **–** | – |
| Money market investments | **1,091,826** | 1,116,990 | **31,972** | 203,580 |
| Tradable instruments | **411,707** | 302,427 | **411,707** | 302,427 |
| Corporate bonds | **40,212** | 9,826 | **–** | – |
| | **5,245,981** | 3,968,635 | **553,173** | 506,007 |
| Current | **3,934,401** | 3,396,975 | **118,177** | 203,580 |
| Non-current | **1,311,580** | 571,660 | **434,996** | 302,427 |
| | **5,245,981** | 3,968,635 | **553,173** | 506,007 |
| **Financial assets at amortised cost** | | | | |
| Treasury bills | **249,537** | 254,645 | **–** | – |
| Government stock | **624,715** | 45,042 | **–** | – |
| Preference shares | **–** | – | **202,060** | 200,411 |
| | **874,252** | 299,687 | **202,060** | 200,411 |
| Current | **360,568** | 254,645 | **–** | – |
| Non-current | **513,684** | 45,042 | **202,060** | 200,411 |
| | **874,252** | 299,687 | **202,060** | 200,411 |

# Notes to the consolidated annual financial statements (continued)

**14. FINANCIAL ASSETS (continued)**

Financial assets at fair value through profit or loss are presented within "operating activities" in the statement of cash flows. Changes in fair values of financial assets at fair value through profit or loss are recorded in "net gain/(loss) from financial instruments designated at fair value through profit or loss" in the statement of comprehensive income (note 7.2).

Treasury bills (including Bank of Botswana certificates) and government stocks are securities issued by the Namibian treasury department and Bank of Botswana for a term of 14 days, three months, six months, a year or longer. Treasury bills and government stock with a maturity of less than 90 days from the reporting date, as well as money market investments, are included in cash and cash equivalents for the purposes of the cash flow statement. Refer to note 39.

The above-mentioned debt securities are managed and their performance evaluated on a fair value basis in accordance with a documented risk management strategy. Treasury bills with a nominal value of N$230 million (2017: N$290 million) are available at the Bank of Namibia for collateral should the need arise. At year-end, there were no treasury bills utilised for security purposes (2017: nil) at the Bank of Namibia. Bank of Botswana certificates with a nominal value of N$138 million (2017: N$165 million) are pledged as security with the Bank of Botswana. At 30 June 2018, no treasury bills have been collateralised under a sale-and-buyback agreement (2017: nil).

Refer to note 3.5 for fair value methodology used.

**15. INVESTMENT SECURITIES**

| | Group 2018 N$'000 | Group 2017 N$'000 |
|---|---|---|
| ***Available-for-sale*** | | |
| Investment securities – listed[1] | **134,028** | 149,831 |
| The movement during the year is summarised as follows: | | |
| Opening balance | **149,381** | 133,998 |
| Disposals[2] | **(59,379)** | – |
| Change in value of available-for-sale financial assets | **44,026** | 15,383 |
| Closing balance | **134,028** | 149,381 |
| Current | **134,028** | 149,381 |

[1] *Listed ordinary shares are held as follows: 6,583,247 shares in Weatherley International Plc, 13,035 shares in Dundee Precious Metals Inc, 28,308 shares in China Africa Resources Plc and 18,182 shares in Visa Inc.*

[2] *During the period under review, 12,122 Visa Inc shares were sold in two tranches. The first tranche, sold in December 2017, comprised 7,576 shares; the second tranche, sold in June 2018, comprised 4,546 shares This resulted in a N$77.3 million profit as per note 7.3.*

Refer to note 3.5 for fair value methodology used.

**16. DUE FROM OTHER BANKS**

| | 2018 N$'000 | 2017 N$'000 |
|---|---|---|
| Placement with other banks | **1,773,529** | 2,198,596 |

Placements with other banks are callable on demand and are therefore current assets.

# Notes to the consolidated annual financial statements (continued)

## 17. LOANS AND ADVANCES TO CUSTOMERS

| | Group 2018 N$'000 | Group 2017 N$'000 |
|---|---|---|
| Overdrafts | 5,462,041 | 5,402,460 |
| Term loans | 10,083,575 | 7,729,446 |
| Mortgages | 17,248,618 | 16,616,534 |
| – Residential mortgages | 10,112,577 | 9,515,415 |
| – Commercial mortgages | 7,136,041 | 7,101,119 |
| Instalment finance | 3,361,848 | 3,557,131 |
| Preference shares | 444,903 | 440,987 |
| *Gross loans and advances* | 36,600,985 | 33,746,558 |
| *Less impairment* | | |
| Specific impairment | (258,411) | (191,412) |
| Portfolio impairment | (108,156) | (121,224) |
| | 36,234,418 | 33,433,922 |
| Notional value of loans and advances | 36,838,989 | 33,859,652 |
| Interest in suspense (contractual interest suspended on non-performing loans) | (238,004) | (113,094) |
| Gross loans and advances | 36,600,985 | 33,746,558 |

Movement in impairment on loans and advances to customers is as follows for the group:

| | Overdrafts N$'000 | Term loans N$'000 | Mortgages N$'000 | Instalment finance N$'000 | Total N$'000 |
|---|---|---|---|---|---|
| **30 June 2018** | | | | | |
| Balance at the beginning of the year | 48,799 | 130,022 | 81,318 | 52,497 | 312,636 |
| – Specific impairment | 32,306 | 81,410 | 46,826 | 30,870 | 191,412 |
| – Portfolio impairment | 16,493 | 48,612 | 34,492 | 21,627 | 121,224 |
| Loan impairment – specific | 21,011 | 52,727 | 17,896 | 16,378 | 108,012 |
| Loan impairment – portfolio | 8,944 | 6,448 | (22,254) | (6,206) | (13,068) |
| Amounts written off during the year as uncollectable | (4,017) | (26,124) | (4,284) | (6,588) | (41,013) |
| Balance at the end of the year | 74,737 | 163,073 | 72,676 | 56,081 | 366,567 |
| – Specific impairment | 49,300 | 108,013 | 60,438 | 40,660 | 258,411 |
| – Portfolio impairment | 25,437 | 55,060 | 12,238 | 15,421 | 108,156 |

# Notes to the consolidated annual financial statements (continued)

## 17. LOANS AND ADVANCES TO CUSTOMERS (continued)

| | Overdrafts N$'000 | Term loans N$'000 | Mortgages N$'000 | Instalment finance N$'000 | Total N$'000 |
|---|---|---|---|---|---|
| **30 June 2017** | | | | | |
| Balance at the beginning of the year | 77,430 | 47,561 | 44,245 | 58,051 | 227,287 |
| – Specific impairment | 59,725 | 23,278 | 22,417 | 42,409 | 147,829 |
| – Portfolio impairment | 17,705 | 24,283 | 21,828 | 15,642 | 79,458 |
| Loan impairment – specific | (9,015) | 40,866 | 12,079 | 11,102 | 55,032 |
| Loan impairment – portfolio | (1,321) | 5,937 | 7,679 | (2,773) | 9,522 |
| Acquisition of subsidiaries | 538 | 54,674 | 17,964 | 11,582 | 84,758 |
| Specific impairment | 429 | 36,282 | 12,979 | 2,824 | 52,514 |
| Portfolio impairment | 109 | 18,392 | 4,985 | 8,758 | 32,244 |
| Amounts written off during the year as uncollectable | (18,833) | (19,016) | (649) | (25,465) | (63,963) |
| Balance at the end of the year | 48,799 | 130,022 | 81,318 | 52,497 | 312,636 |
| – Specific impairment | 32,306 | 81,410 | 46,826 | 30,870 | 191,412 |
| – Portfolio impairment | 16,493 | 48,612 | 34,492 | 21,627 | 121,224 |

| | Group | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | N$'000 | % | N$'000 | % |
| **Specific and portfolio impairment by geographical area** | | | | |
| Namibia | **230,314** | | 201,316 | |
| Botswana | **121,011** | | 103,930 | |
| Zambia | **15,242** | | 7,390 | |
| | **366,567** | | 312,636 | |
| The following is a sensitivity analysis showing the increase/(decrease) in the portfolio impairment had the following changes arisen on the significant inputs: | | | | |
| 100 basis points increase in probability of default | **8,657** | | 6,298 | |
| 100 basis points decrease in probability of default | **(8,541)** | | (6,298) | |
| 1,000 basis points increase in loss given default | **8,399** | | 15,481 | |
| 1,000 basis points decrease in loss given default | **(7,427)** | | (15,481) | |
| Maturity analysis of loans and advances to customers for the group were as follows: | | | | |
| Repayable within 1 month | **4,946,417** | **13.5** | 5,513,106 | 16.4 |
| Repayable after 1 month but within 3 months | **620,218** | **1.7** | 466,530 | 1.4 |
| Repayable after 3 months but within 6 months | **763,862** | **2.1** | 514,468 | 1.5 |
| Repayable after 6 months but within 12 months | **863,927** | **2.4** | 550,065 | 1.6 |
| Repayable after 12 months | **29,406,561** | **80.3** | 26,702,389 | 79.1 |
| | **36,600,985** | **100.0** | 33,746,558 | 100.0 |

# Notes to the consolidated annual financial statements (continued)

## 17. LOANS AND ADVANCES TO CUSTOMERS (continued)

| | Group | |
|---|---|---|
| | 2018 N$'000 | 2017 N$'000 |
| The loans and advances to customers include instalment finance receivables which are analysed as follows: | | |
| Repayable within 1 year | 193,954 | 260,974 |
| Repayable after 1 year but within 5 years | 3,825,092 | 4,227,960 |
| Repayable after 5 years | 14,380 | 7,978 |
| Gross investment in instalment finances | 4,033,426 | 4,496,912 |
| Unearned future finance income on instalment finances | (746,656) | (1,039,569) |
| Net investment in instalment finances | 3,286,770 | 3,457,343 |

The group has not sold or pledged any advances to third parties.

Under the terms of lease agreements, no contingent rentals are payable. These agreements relate to motor vehicles and equipment.

The group has a share purchase scheme in which it has a mechanism to allow employees to purchase shares in Capricorn Group at a value that approximates fair value at the date of sale of shares. The shares are sold via an interest free loan provided by Bank Windhoek Ltd. Such loans are full recourse loans and if not repaid, Bank Windhoek Ltd may legally take possession of the employee's personal assets. Thus the share purchase scheme does not fall within the scope of IFRS 2 – "Share-based payment". The benefit employees receive relating to the interest free element of the loan is taken directly to the employee loan accounts.

Included in term loans is an amount of N$43,5 million (2017: N$39,9 million) relating to the above-mentioned scheme.

The movements on these staff loans were as follows:

| | Group | |
|---|---|---|
| | 2018 N$'000 | 2017 N$'000 |
| Opening balance | 39,942 | 34,656 |
| New loans advanced during the year | 22,382 | 17,953 |
| Loans redeemed during the year | (18,736) | (16,458) |
| Staff costs (adjustment to fair value) | (5,473) | (5,434) |
| Effective interest charged | 5,381 | 9,225 |
| Closing balance | 43,496 | 39,942 |

## 18. OTHER ASSETS

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| Insurance fund asset | **53,742** | 58,628 | **–** | – |
| Accounts receivable | **333,801** | 171,511 | **75,663** | 32,305 |
| Dividends receivable | **5,300** | – | **47,309** | – |
| Clearing, settlement and internal accounts | **96,483** | 119,982 | **–** | – |
| Prepayments | **73,265** | 42,376 | **253** | – |
| Other taxes | **1,841** | 663 | **221** | 221 |
| Inventory | **48,038** | 57,034 | **–** | – |
| Derivative financial instruments – interest rate swaps | **–** | 71 | **–** | – |
| | **612,470** | 450,265 | **123,446** | 32,526 |
| Current | **510,690** | 334,532 | **123,446** | 32,526 |
| Non-current | **101,780** | 115,733 | **–** | – |
| | **612,470** | 450,265 | **123,446** | 32,526 |

Interest rate swaps are commitments to exchange one set of cash flows for another and result in an economic exchange of a fixed rate for a floating rate or vice versa. No exchange of principal takes place.

The notional principal amount of the outstanding interest rate swap contracts, included above and in other liabilities (note 28), at 30 June 2018 was N$420.0 million (2017: N$420.0 million).

Refer to note 3.2.5 for credit quality disclosure of financial instruments included in other assets.

# Notes to the consolidated annual financial statements (continued)

## 19. INVESTMENT IN SUBSIDIARIES

The following information relates to the company's financial interests in its unlisted subsidiaries:

| | Number of shares held '000 | Issued ordinary share capital and premium N$'000 | Effective holding 2018 % | Effective holding 2017 % |
|---|---|---|---|---|
| **Subsidiaries of Capricorn Group** | | | | |
| Bank Windhoek Ltd | 4,920 | 485,000 | 100 | 100 |
| Namib Bou (Pty) Ltd | 600 | 23,000 | 100 | 100 |
| Capricorn Asset Management (Pty) Ltd | 55 | 1,001 | 100 | 100 |
| Capricorn Unit Trust Management Company Ltd | 2,000 | 2,000 | 100 | 100 |
| Capricorn Capital (Pty) Ltd | 4 | 100 | 100 | 100 |
| Capricorn Investment Holdings (Botswana) Ltd | 52,598 | 318,858 | 84.3 | 68.7 |
| Cavmont Capital Holdings Zambia Plc | 111,625 | 207,340 | 97.9 | 97.9 |
| Mukumbi Investments (Pty) Ltd | 5 | 33 | 100 | 100 |
| Entrepo Holdings (Pty) Ltd | 15 | 130,000 | 55.5 | – |
| **Subsidiaries of Bank Windhoek Ltd** | | | | |
| Bank Windhoek Nominees (Pty) Ltd | 0.1 | 0.1 | 100 | 100 |
| BW Finance (Pty) Ltd | 0.1 | 0.1 | 100 | 100 |
| Bank Windhoek Properties (Pty) Ltd | 1 | 1 | 100 | 100 |
| **Subsidiaries of Capricorn Investment Holdings (Botswana) Ltd** | | | | |
| Bank Gaborone Ltd | 220,000 | 297,309 | 100 | 100 |
| Penrich Employee Benefits (Pty) Ltd | 1 | 8,124 | 100 | 100 |
| Capricorn Asset Management (Botswana) (Pty) Ltd | 1 | 2,579 | 100 | 100 |
| **Subsidiaries of Cavmont Capital Holdings Zambia Plc** | | | | |
| Cavmont Bank Ltd | 19,075 | 26,445 | 100 | 100 |

# Notes to the consolidated annual financial statements (continued)

## 19. INVESTMENT IN SUBSIDIARIES (continued)

| | Aggregate income of subsidiaries (after tax) | | Total investment | |
|---|---|---|---|---|
| | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| ***Financial details of subsidiaries*** | | | | |
| **Subsidiaries of Capricorn Group** | | | | |
| Bank Windhoek Ltd (consolidated) | **796,766** | 775,433 | **520,440** | 520,440 |
| Namib Bou (Pty) Ltd | **2,282** | 1,166 | **23,000** | 23,000 |
| Capricorn Asset Management (Pty) Ltd | **23,154** | 20,895 | **127,954** | 127,954 |
| Capricorn Unit Trust Management Company Ltd | **19,668** | 17,090 | **64,750** | 64,750 |
| Capricorn Capital (Pty) Ltd | **(5,779)** | – | **163** | 163 |
| Capricorn Investment Holdings (Botswana) Ltd | **46,551** | 37,589 | **436,361** | 353,344 |
| Cavmont Capital Holdings Zambia Plc | **(52,130)** | 2,955 | **57,170** | 57,170 |
| Mukumbi Investments (Pty) Ltd | **(55)** | (58) | **55,182** | 55,182 |
| Entrepo Holdings Ltd | **–** | – | **238,680** | – |
| | **830,457** | 855,070 | **1,523,700** | 1,202,003 |
| Non-current | | | **1,523,700** | 1,202,003 |
| **Subsidiaries of Bank Windhoek Ltd** | | | | |
| BW Finance (Pty) Ltd | **13,553** | 13,189 | **0.1** | 0.1 |
| Bank Windhoek Properties (Pty) Ltd | **921** | 8,628 | **19,799** | 19,799 |
| | **14,474** | 21,817 | **19,799** | 19,799 |
| **Subsidiaries of Capricorn Investment Holdings (Botswana) Ltd** | | | | |
| Bank Gaborone Ltd | **44,007** | 36,066 | **293,461** | 293,461 |
| Penrich Employee Benefits (Pty) Ltd | **9** | (12) | **8,040** | 8,040 |
| Capricorn Asset Management (Botswana) (Pty) Ltd | **119** | (31) | **2,552** | 2,552 |
| | **44,135** | 36,023 | **304,053** | 304,053 |
| **Subsidiaries of Cavmont Capital Holdings Zambia Plc** | | | | |
| Cavmont Bank Ltd | **(46,552)** | 2,084 | **214,761** | 214,761 |
| | **(46,552)** | 2,084 | **214,761** | 214,761 |
| **Subsidiaries of Entrepo Holdings (Pty) Ltd** | | | | |
| Entrepo Life Ltd | **–** | – | **4,200** | – |
| Entrepo Finance | **–** | – | **1,000** | – |
| | **–** | – | **5,200** | – |

The at-acquisition exchange rates of BWP1.289 and ZMW1.386 have been applied to the conversion of the investment. Average exchange rates for the year of BWP1.293 and ZMW1.324 have been applied on the conversion of the aggregate income.

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held by the parent company do not differ from the proportion of ordinary shares held. Refer to note 14 for the parent company's shareholding in the preference shares of subsidiary undertakings included in the group.

Refer to note 40 for related party transactions and balances with subsidiaries.

# Notes to the consolidated annual financial statements (continued)

## 20. INVESTMENT IN ASSOCIATES

Set out below are the associates of the group as at 30 June 2018. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the group.

| | Number of shares held '000 | Issued ordinary share capital and premium N$'000 | Effective holding 2018 % | Effective holding 2017 % | Shares at cost 2018 N$'000 | Shares at cost 2017 N$'000 |
|---|---|---|---|---|---|---|
| **Associates of Capricorn Group** | | | | | | |
| Santam Namibia Ltd | **1,230** | **8,307** | **28.0** | **28.0** | **62,905** | 62,905 |
| Sanlam Namibia Holdings (Pty) Ltd | **30** | **160,665** | **29.5** | **29.5** | **47,290** | 47,290 |
| Nimbus Infrastructure Ltd | **3,446** | **18,859** | **18.3** | **–** | **34,461** | – |
| | | | | | **144,656** | 110,195 |

### 20.1 Santam Namibia Ltd

The company holds a 28% interest in Santam Namibia Ltd, a short-term insurance company.

| | Group 2018 N$'000 | Group 2017 N$'000 | Company 2018 N$'000 | Company 2017 N$'000 |
|---|---|---|---|---|
| **Carrying value of investment in associate** | | | | |
| Investment at cost | **62,905** | 62,905 | **62,905** | 62,905 |
| Share of current year's retained income | **41,134** | 31,951 | | |
| – Profit before tax | **59,108** | 46,651 | | |
| – Current and deferred tax | **(17,974)** | (14,700) | | |
| Dividends paid | **(38,438)** | (29,352) | | |
| Post-acquisition retained income at the beginning of the year | **63,631** | 61,032 | | |
| | **129,232** | 126,536 | **62,905** | 62,905 |
| Directors' valuation | **310,468** | 307,083 | **310,468** | 307,083 |

*Technique used for directors' valuation*

Santam Namibia Ltd is not listed on a stock exchange and therefore has no quoted market price available for its shares. The directors' valuation was determined by using its price to book value.

# Notes to the consolidated annual financial statements (continued)

**20. INVESTMENT IN ASSOCIATES (continued)**

**20.1 Santam Namibia Ltd (continued)**

*Technique used for directors' valuation (continued)*

| | Group | | Company | |
|---|---|---|---|---|
| | 2018<br>N$'000 | 2017<br>N$'000 | 2018<br>N$'000 | 2017<br>N$'000 |
| **Summarised financial information (unaudited)** | | | | |
| Revenue (net earned premium) | **858,672** | 865,347 | | |
| Profit after tax | **147,147** | 114,296 | | |
| Total comprehensive income | **147,147** | 114,296 | | |
| Non-current assets | **468,351** | 425,572 | | |
| Technical assets | **336,361** | 288,234 | | |
| Current assets | **237,532** | 294,476 | | |
| Non-current liabilities | **–** | (18,654) | | |
| Technical liabilities | **(488,073)** | (447,821) | | |
| Current liabilities | **(175,447)** | (172,726) | | |
| **Net asset value** | **378,724** | 369,081 | | |
| Interest in associate (28%) | **105,872** | 103,176 | | |
| Goodwill on acquisition | **23,360** | 23,360 | | |
| **Carrying value of investment in associate** | **129,232** | 126,536 | | |

**20.2 Sanlam Namibia Holdings (Pty) Ltd**

The company holds an effective 29.5% in Sanlam Namibia Holdings (Pty) Ltd, a Namibian company providing a variety of financial services.

| | Group 2018<br>N$'000 | Group 2017<br>N$'000 | Company 2018<br>N$'000 | Company 2017<br>N$'000 |
|---|---|---|---|---|
| **Carrying value of investment in associate** | | | | |
| Investment at cost | **47,290** | 47,290 | **47,290** | 47,290 |
| Share of current year's retained income | **41,808** | 46,149 | | |
| – Profit before tax | **45,026** | 48,518 | | |
| – Current and deferred tax | **(3,218)** | (2,369) | | |
| Dividends paid | **(42,530)** | (50,377) | | |
| Post-acquisition retained income at the beginning of the year | **71,956** | 76,184 | | |
| | **118,524** | 119,246 | **47,290** | 47,290 |
| Directors' valuation | **455,354** | 415,415 | **455,354** | 415,415 |

# Notes to the consolidated annual financial statements (continued)

**20. INVESTMENT IN ASSOCIATES (continued)**

**20.2 Sanlam Namibia Holdings (Pty) Ltd (continued)**

*Technique used for directors' valuation (continued)*

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| Sanlam Namibia Holdings (Pty) Ltd is a private company and there is no quoted market price available for its shares. The directors' valuation was determined by using the price to embedded value basis of valuation. | | | | |
| **Summarised financial information (unaudited)** | | | | |
| Revenue (net insurance income) | **995,434** | 826,239 | | |
| Profit after tax | **141,917** | 156,654 | | |
| Total comprehensive income | **141,917** | 156,654 | | |
| Non-current assets | **4,470,969** | 3,747,132 | | |
| Current assets | **338,844** | 325,941 | | |
| Non-current liabilities | **(3,967,205)** | (3,405,471) | | |
| Current liabilities | **(503,444)** | (325,986) | | |
| **Net asset value** | **339,164** | 341,616 | | |
| Interest in associate (29.5%) | **99,918** | 100,640 | | |
| Goodwill on acquisition | **18,606** | 18,606 | | |
| **Carrying value of investment in associate** | **118,524** | 119,246 | | |

The associates above have December financial year-ends and are incorporated in Namibia. The country of incorporation/registration is also their principal place of business. The results of associates are equity accounted. Management accounts as at 30 June 2018 have been used for equity accounting the share of results of associates for their half year ended 30 June 2018.

**20.3 Nimbus Infrastructure Ltd**

The company holds a 18.3% interest in Nimbus Infrastructure Ltd, a Capital Pool Company with the objective of pursuing investments in the Information Communication and Technology Sector.

| | Group 2018 N$'000 | Group 2017 N$'000 | Company 2018 N$'000 | Company 2017 N$'000 |
|---|---|---|---|---|
| **Carrying value of investment in associate** | | | | |
| Investment at cost | **34,461** | – | **34,461** | – |
| Share of current year's retained income | **294** | – | | |
| – Profit before tax | **364** | – | | |
| – Current and deferred tax | **(70)** | – | | |
| | **34,755** | – | **34,461** | – |
| Valuation | **37,941** | – | **207,638** | – |

# Notes to the consolidated annual financial statements (continued)

**20. INVESTMENT IN ASSOCIATES (continued)**

**20.3 Nimbus Infrastructure Ltd (continued)**

*Technique used for directors' valuation (continued)*

Nimbus Infrastructure Ltd is listed on the Namibia Sock Exchange (NSX) and therefore has a quoted market price available for its shares.

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| **Summarised financial information (unaudited)** | | | | |
| Revenue | 23,210 | – | | |
| Profit after tax | 1,574 | – | | |
| Total comprehensive income | 1,574 | – | | |
| Non-current assets | 345,542 | – | | |
| Current assets | 72,995 | – | | |
| Non-current liabilities | (106,295) | – | | |
| Current liabilities | (77,314) | – | | |
| Non-controlling interest | (44,722) | – | | |
| **Net asset value** | 190,206 | – | | |
| Interest in associate (18.3%) | 34,755 | – | | |
| **Carrying value of investment in associate** | 34,755 | – | | |
| Total investment in associates (non-current) | 282,511 | 245,782 | 144,656 | 110,195 |

Refer to note 40 for related party transactions and balances with associates.

# Notes to the consolidated annual financial statements (continued)

## 21. INTEREST IN JOINT ARRANGEMENTS

*Joint venture*

The joint venture was incorporated in Namibia. The country of incorporation or registration is also its principal place of business. The results of the joint venture is equity accounted. Management accounts as at 30 June 2018, have been used for equity accounting the share of results for the year ended 30 June 2018. The value of the group's share in assets, liabilities, income and expenditure is not significant to the group as a whole. These components are therefore not disclosed.

The joint venture listed below has share capital consisting solely of ordinary shares, which are held directly by the group.

The group obtained a 25% interest in Namclear (Pty) Ltd during 2005. According to the joint venture agreement, a unanimous vote from all four shareholders is required to effect a resolution. Namclear (Pty) Ltd has a December year-end.

| | Number of shares held | Issued ordinary share capital and premium 2018 and 2017 | | Shares at cost | |
|---|---|---|---|---|---|
| | '000 | N$'000 | % | 2018 N$'000 | 2017 N$'000 |
| Namclear (Pty) Ltd | 4 | 4,616 | 25 | 1,154 | 1,154 |

| | Group | |
|---|---|---|
| | 2018 N$'000 | 2017 N$'000 |
| Opening balance | 6,193 | 5,099 |
| The group's share of the profit in the joint venture | 1,148 | 1,094 |
| Closing balance | 7,341 | 6,193 |
| Non-current | 7,341 | 6,193 |
| Directors' valuation | 7,341 | 6,193 |
| *Technique used for directors' valuation:* | | |
| The directors' valuation was determined by using its net asset value. | | |
| **Aggregated summarised financial information of Namclear (Pty) Ltd** | | |
| Profit after tax | 4,592 | 4,376 |
| Total comprehensive income | 4,592 | 4,376 |

Refer to note 40 for related party transactions and balances with joint ventures.

# Notes to the consolidated annual financial statements (continued)

## 22. INTANGIBLE ASSETS

| Group | Goodwill N$'000 | Purchased software N$'000 | Intangible assets in development N$'000 | Internally generated software N$'000 | Total N$'000 |
|---|---|---|---|---|---|
| **30 June 2018** | | | | | |
| *Cost* | | | | | |
| Cost at 1 July 2017 | **71,068** | **112,630** | **20,151** | **214,510** | **418,359** |
| Transfers | **–** | **1,171** | **(39,646)** | **27,674** | **(10,801)** |
| Additions | **–** | **–** | **49,060** | **4,039** | **53,099** |
| Exchange differences | **–** | **–** | **(1,240)** | **1,408** | **168** |
| Cost at 30 June 2018 | **71,068** | **113,801** | **28,325** | **247,631** | **460,825** |
| *Amortisation* | | | | | |
| Amortisation at 1 July 2017 | **–** | **(93,734)** | **(6,843)** | **(26,102)** | **(126,679)** |
| Charge for the year | **–** | **(804)** | **–** | **(49,023)** | **(49,827)** |
| Exchange differences | **–** | **–** | **83** | **(469)** | **(386)** |
| Amortisation at 30 June 2018 | **–** | **(94,538)** | **(6,760)** | **(75,594)** | **(176,892)** |
| *Net book value at 30 June 2018* | **71,068** | **19,263** | **21,565** | **172,037** | **283,933** |
| **30 June 2017** | | | | | |
| *Cost* | | | | | |
| Cost at 1 July 2016 | 48,687 | 64,880 | 12,746 | 147,402 | 273,715 |
| Transfers | – | 1,674 | – | – | 1,674 |
| Acquisition of subsidiaries | 25,550 | 53,500 | 4,067 | – | 83,117 |
| Additions | – | 1,184 | 3,338 | 67,108 | 71,630 |
| Disposals (including disposal of subsidiary) | (3,169) | (8,608) | – | – | (11,777) |
| Cost at 30 June 2017 | 71,068 | 112,630 | 20,151 | 214,510 | 418,359 |
| *Amortisation* | | | | | |
| Amortisation at 1 July 2016 | – | (62,678) | (6,843) | (5,149) | (74,670) |
| Acquisition of subsidiary | – | (29,746) | – | – | (29,746) |
| Charge for the year | – | (4,007) | – | (20,953) | (24,960) |
| Amortisation on disposals | – | 2,697 | – | – | 2,697 |
| Amortisation at 30 June 2017 | – | (93,734) | (6,843) | (26,102) | (126,679) |
| *Net book value at 30 June 2017* | 71,068 | 18,896 | 13,308 | 188,408 | 291,680 |

All intangible assets are held by the group, none by the company and all are classified as non-current assets. No assets were encumbered at 30 June 2018 nor 30 June 2017.

Intangible assets consist of goodwill, computer software, including its related acquisition and development costs and intangible assets in development.

# Notes to the consolidated annual financial statements (continued)

## 23. PROPERTY, PLANT AND EQUIPMENT

| Group | Freehold land and buildings N$'000 | Computer and other equipment N$'000 | Motor vehicles N$'000 | Furniture, fittings and other office equipment N$'000 | Total N$'000 |
|---|---|---|---|---|---|
| **30 June 2018** | | | | | |
| *Cost* | | | | | |
| Cost at 1 July 2017 | 82,745 | 205,091 | 28,541 | 265,448 | 581,825 |
| Additions | – | 21,154 | 2,657 | 22,015 | 45,826 |
| Transfers | – | 10,801 | – | – | 10,801 |
| Acquisition of subsidiaries | – | 3,858 | – | 1,183 | 5,041 |
| Exchange differences | (2,813) | 980 | (454) | (2,986) | (5,273) |
| Disposals | – | (5,033) | – | (423) | (5,456) |
| Cost at 30 June 2018 | 79,932 | 236,851 | 30,744 | 285,237 | 632,764 |
| *Depreciation* | | | | | |
| Accumulated depreciation at 1 July 2017 | (28,964) | (126,064) | (17,689) | (176,300) | (349,017) |
| Charge for the year | (1,604) | (28,164) | (2,018) | (15,475) | (47,261) |
| Exchange differences | 432 | (801) | 142 | 1,775 | 1,548 |
| Acquisition of subsidiaries | – | (2,302) | – | (484) | (2,786) |
| Depreciation on disposals | – | 2,788 | – | 410 | 3,198 |
| Accumulated depreciation at 30 June 2018 | (30,136) | (154,543) | (19,565) | (190,074) | (394,318) |
| *Net book value at 30 June 2018* | 49,796 | 82,308 | 11,179 | 95,163 | 238,446 |
| **30 June 2017** | | | | | |
| *Cost* | | | | | |
| Cost at 1 July 2016 | 50,610 | 150,379 | 20,350 | 141,984 | 363,323 |
| Additions | 90 | 33,720 | 1,791 | 27,451 | 63,052 |
| Acquisition of subsidiary | 33,120 | 24,678 | 7,504 | 96,452 | 161,754 |
| Disposals | (1,075) | (3,686) | (1,104) | (439) | (6,304) |
| Cost at 30 June 2017 | 82,745 | 205,091 | 28,541 | 265,448 | 581,825 |
| *Depreciation* | | | | | |
| Accumulated depreciation at 1 July 2016 | (17,847) | (85,450) | (11,096) | (90,677) | (205,070) |
| Charge for the year | (2,152) | (25,777) | (2,723) | (17,383) | (48,035) |
| Acquisition of subsidiary | (8,965) | (18,359) | (4,877) | (68,531) | (100,732) |
| Depreciation on disposals | – | 3,522 | 1,007 | 291 | 4,820 |
| Accumulated depreciation at 30 June 2017 | (28,964) | (126,064) | (17,689) | (176,300) | (349,017) |
| *Net book value at 30 June 2017* | 53,781 | 79,027 | 10,852 | 89,148 | 232,808 |

# Notes to the consolidated annual financial statements (continued)

**23. PROPERTY, PLANT AND EQUIPMENT (continued)**

There was no material change in the nature of property, plant and equipment or in the policy regarding its use during the year.

Details regarding the fixed properties as required in terms of Schedule 4 of the Companies Act are available to shareholders at the registered office of the group. This information will be open for inspection in terms of the provisions of section 120 of the Companies Act, 2004. The company does not own any property, plant and equipment.

No assets were encumbered at 30 June 2018 nor 30 June 2017. All property, plant and equipment are classified as non-current assets.

**24. DUE TO OTHER BANKS**

| | Group | |
|---|---|---|
| | **2018 N$'000** | **2017 N$'000** |
| Current accounts | **63,037** | 140,611 |
| Borrowings from other banks – in the normal course of business | **189,646** | 177,303 |
| | **252,683** | 317,914 |
| Current | **252,683** | 317,914 |

Due to other banks are unsecured with no fixed repayment terms and bears interest at market-related interest rates.

**25. OTHER BORROWINGS**

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 N$'000** | **2017 N$'000** | **2018 N$'000** | **2017 N$'000** |
| Balance as at 1 July | **1,165,064** | 1,164,051 | **–** | – |
| Additions | **309,651** | – | **90,651** | – |
| Accrued interest | **127,473** | 101,003 | **2,454** | – |
| Repayments | **(294,027)** | (99,990) | **(2,454)** | – |
| Foreign exchange gain | **5,272** | – | **5,272** | – |
| Balance as at 30 June | **1,313,433** | 1,165,064 | **95,923** | – |
| Current | **263,196** | 167,273 | **95,923** | – |
| Non-current | **1,050,237** | 997,791 | **–** | – |
| | **1,313,433** | 1,165,064 | **95,923** | – |

Other borrowings consist of long-term funding raised from the International Finance Corporation (IFC) and Deutsche Investitions- und Entwicklungsgesellschaft (DEG) respectively. The IFC loan is repayable semi-annually over a seven-year term with quarterly interest repayments. The first capital repayment was due December 2017. Interest on the IFC loans is charged at three-month JIBAR plus an average spread of 2.95%. Repayments of N$167,2 million have been made in the year ended June 2018 to IFC. The DEG loan is repayable semi-annually over an eight-year term with quarterly interest repayments. The first capital repayment is due March 2020. Interest on the DEG loan is charged at three-month JIBAR plus a spread of 3.65%.

# Notes to the consolidated annual financial statements (continued)

## 25. OTHER BORROWINGS (continued)

Also included in other borrowings is N$219 million long-term funding raised from Agence Française de Développement (AFD) and US$7 million raised from Bank One Ltd. The AFD loan is repayable semi-annually over a seven-year term with quarterly interest repayments. Interest on the AFD loan is charged at three-month JIBAR plus an average spread of 1.13%.

The interest on the Bank One loan is repayable quarterly over the one-year term of the loan with the capital amount being repayable at the end of the loan. Interest on the Bank One loan is charged at three-month LIBOR plus a spread of 2%.

The group complied with all debt covenant requirements relating to these loans in the current financial year.

## 26. DEBT SECURITIES IN ISSUE

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| Balance as at 1 July | **4,105,577** | 2,215,345 | **932,469** | 25,142 |
| Acquisition of subsidiaries | **–** | 141,924 | **–** | – |
| Redemptions | **(1,341,584)** | (473,766) | **(930,000)** | – |
| Additions | **1,993,885** | 2,204,000 | **1,030,000** | 900,000 |
| Effective interest | **375,957** | 236,581 | **76,019** | 16,242 |
| Coupon payments | **(356,761)** | (218,507) | **(70,216)** | (8,915) |
| Balance as at 30 June | **4,777,074** | 4,105,577 | **1,038,272** | 932,469 |
| | | | | |
| Current | **1,497,623** | 407,928 | **438,272** | – |
| Non-current | **3,279,451** | 3,697,649 | **600,000** | 932,469 |
| | **4,777,074** | 4,105,577 | **1,038,272** | 932,469 |

# Notes to the consolidated annual financial statements (continued)

## 26. DEBT SECURITIES IN ISSUE (continued)

| Debt instruments | Interest rate | Maturity date | Notes | Group 2018 N$'000 | Group 2017 N$'000 |
|---|---|---|---|---|---|
| *Five-year callable bonds* | | | | | |
| BW25 | 9.75% | 18-Aug-25 | 26.1 | **187,533** | 187,533 |
| Bonds issued by Bank Gaborone | Bobc rate + 1.6% | 31-Oct-21 | 26.1 | **65,625** | 63,796 |
| | | | | **253,158** | 251,329 |
| *Senior debt – unsecured* | | | | | |
| BWFd19 fixed rate note | 9.43% | 25-Apr-19 | 26.2 | **101,725** | 101,725 |
| BWZj18 floating rate note | 3 mth JIBAR + 180bps | 19-Nov-18 | 26.2 | **606,150** | 606,462 |
| BWFh17 fixed rate note | 8.09% | 22-Aug-17 | 26.2 | **–** | 149,180 |
| BWFh19 fixed rate note | 8.86% | 22-Aug-19 | 26.2 | **113,473** | 113,473 |
| BWJh17 floating rate note | 3 mth JIBAR + 95bps | 22-Aug-17 | 26.2 | **–** | 45,409 |
| BWJe18 floating rate note | 3 mth JIBAR + 135bps | 29-May-18 | 26.2 | **–** | 33,158 |
| BWZ18B floating rate note | 3 mth JIBAR + 185bps | 27-Mar-18 | 26.2 | **–** | 180,181 |
| BWZ20A floating rate note | 3 mth JIBAR + 215bps | 27-Mar-20 | 26.2 | **299,297** | 299,310 |
| BWJj19 floating rate note | 3 mth JIBAR + 175bps | 25-Oct-19 | 26.2 | **121,850** | 121,906 |
| BWi20 floating rate note | 3 mth JIBAR + 180bps | 18-Sep-20 | 26.2 | **265,863** | – |
| BWFj18 fixed rate note | 9.55% | 25-Oct-18 | 26.2 | **105,819** | 105,820 |
| BWRj21 fixed rate note | 7.75% | 15-Oct-21 | 26.2 | **57,112** | 55,844 |
| BWZj21 floating rate note | 3 mth JIBAR + 230bps | 10-Nov-21 | 26.2 | **60,786** | 60,824 |
| BWZj19 floating rate note | 3 mth JIBAR + 205bps | 10-Nov-19 | 26.2 | **162,040** | 162,236 |
| BWJd21 floating rate note | 3 mth JIBAR + 185bps | 20-Apr-21 | 26.2 | **132,477** | – |
| BWZ21B floating rate note | 3 mth JIBAR + 205bps | 27-Mar-21 | 26.2 | **300,296** | – |
| BWFh22 fixed rate note | 9.50% | 18-Aug-22 | 26.2 | **155,254** | – |
| BWJh22 floating rate note | 3 mth JIBAR + 195bps | 19-May-27 | 26.2 | **60,544** | – |
| BWJ1e27 floating rate note | 3 mth JIBAR + 215bps | 19-May-27 | 26.2 | **505,331** | 505,546 |
| BWJ2e27 floating rate note | 3 mth JIBAR | 19-May-27 | 26.2 | **302,440** | 302,574 |
| Senior debt issued by Bank Gaborone | 7% – 7.75% | May-19; June-27 | 26.2 | **135,187** | 78,131 |
| | | | | **3,485,644** | 2,921,779 |
| *Preference shares (floating rate note)* | | | | | |
| 2,500 preference shares – Santam Namibia Ltd | 64.5% of prime | 1-Dec-18 | 26.3 | **25,144** | 25,142 |
| 10,000 preference shares – Capricorn Corporate Fund | 3 mth JIBAR + 185 bps | 15-Feb-21 | 26.3 | **101,126** | – |
| 40,000 preference shares – Capricorn Investment Holdings Ltd | 3 mth JIBAR | 23-Mar-27 | 26.3 | **404,613** | – |
| | | | | **530,883** | 25,142 |

# Notes to the consolidated annual financial statements (continued)

## 26. DEBT SECURITIES IN ISSUE (continued)

| Debt instruments | Interest rate | Maturity date | Notes | Group 2018 N$'000 | Group 2017 N$'000 |
|---|---|---|---|---|---|
| *Debentures* | | | | | |
| Capricorn Investment Holdings Ltd | 3 mth JIBAR | Dec-27 | 26.4 | – | 407,327 |
| Various funds administered by Capricorn Asset Management (Pty) Ltd | 3 mth JIBAR + 170bps | April-19 | 26.4 | **405,843** | – |
| Capricorn Investment Holdings Ltd | 3 mth JIBAR + 235bps | Dec-27 | 26.4 | **101,546** | 500,000 |
| | | | | **507,389** | 907,327 |
| **Total debt securities in issue at the end of the year** | | | | **4,777,074** | 4,105,577 |
| Listed debt securities | | | | **3,537,990** | 3,031,181 |
| Unlisted debt securities | | | | **1,239,084** | 1,074,396 |
| | | | | **4,777,074** | 4,105,577 |

### 26.1 Five-year callable bonds

The five-year callable bond BW25, issued on 15 August 2015, interest is paid semi-annually in February and August of each year. This bond qualifies as Tier II capital for the group. BW25 was issued under Bank Windhoek's Medium Term Note Programme, a programme registered with the Johannesburg and Namibian Stock Exchanges.

The five-year callable bond issued by Bank Gaborone bears interest at Bank of Botswana Certificate rate plus 1.6% per annum for the first five years plus a stepped up margin of 2.1% thereafter and matures on 31 October 2021. Interest is paid quarterly in arrears. The debt is guaranteed by the ultimate parent company, Capricorn Investment Holdings Limited.

### 26.2 Senior debt – unsecured

New debt securities issued in the current year includes BWJi20, BWJh22, BWFh22 and BWJd21 issued on 20 July 2017, while BWZ21B was issued on 27 March 2018.

Interest on BWJh17, BWZ18B, BWJe18, BWZj18, BWJj19, BWZj19, BWZ20A, BWJi20, BWZj21, BWJD21, BWZ21B, BWJH22, BWJ1e27 and BWJ2e27 is paid quarterly. Interest on BWFj18, BWFd19 and BWFH22 are paid semi-annually on 25 April and 25 October, while interest on BWFh17 and BWFh19 are paid semi-annually on 22 February and 22 August. Interest on BWRj21 is paid semi-annually on 15 April and 15 October.

The instruments mentioned above are under Bank Windhoek's Medium Term Note Programme, a programme registered with the Johannesburg and Namibian Stock Exchanges.

# Notes to the consolidated annual financial statements (continued)

**26. DEBT SECURITIES IN ISSUE (continued)**

**26.3 Preference shares**

The company issued 40,000 new preference shares on 1 July 2017. Interest is payable quarterly in arrears on the last working day of March, June, September and December.

10,000 new preference shares were issued by the company on 15 February 2018. Interest is payable quarterly in arrears on the 15th day of February, May, August and November.

**26.4 Debentures**

The debentures were issued by the company on 1 January 2017 and 30 April 2018. The interest is paid quarterly in arrears.

Debt securities in issue comprises subordinated debt, senior debt, preference shares and debentures with a combined nominal value of N$4,8 billion (2017: N$4,.1 billion).

**27. DEPOSITS**

| | Group | |
|---|---|---|
| | 2018 N$'000 | 2017 N$'000 |
| Current accounts | **7,483,375** | 7,007,250 |
| Savings accounts | **2,438,471** | 2,194,363 |
| Demand deposits | **4,606,282** | 3,966,508 |
| Term and notice deposits | **12,129,974** | 10,545,748 |
| Negotiable certificates of deposits (NCDs) | **5,692,596** | 6,594,658 |
| Other deposits | **1,597,393** | 1,263,034 |
| | **33,948,091** | 31,571,561 |

| | Group | | | |
|---|---|---|---|---|
| | 2018 N$'000 | % | 2017 N$'000 | % |
| Maturity analysis within the customer current, savings, deposit account portfolio for the group were as follows: | | | | |
| Withdrawable on demand | **15,233,526** | **44.9** | 13,107,664 | 41.5 |
| Maturing within 1 month | **4,389,108** | **12.9** | 2,268,229 | 7.2 |
| Maturing after 1 month but within 6 months | **8,353,506** | **24.6** | 8,354,590 | 26.5 |
| Maturing after 6 months but within 12 months | **4,682,389** | **13.8** | 6,246,352 | 19.8 |
| Maturing after 12 months | **1,289,562** | **3.8** | 1,594,726 | 5.0 |
| | **33,948,091** | **100.0** | 31,571,561 | 100.0 |

# Notes to the consolidated annual financial statements (continued)

## 28. OTHER LIABILITIES

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| Accounts payable and other accruals | **893,722** | 270,124 | **201,880** | 30,391 |
| Employee liabilities | **129,267** | 116,836 | **15,347** | 6,735 |
| – Leave pay accrual | **46,753** | 42,042 | **3,305** | 2,603 |
| – Provision for performance bonuses | **65,213** | 54,148 | **12,042** | 4,132 |
| – PAYE payable | **9,618** | 8,368 | **–** | – |
| – Medical aid payable | **6,766** | 6,368 | **–** | – |
| – Pension payable | **331** | 5,302 | **–** | – |
| – Other | **586** | 608 | **–** | – |
| Other taxes | **27,860** | 9,246 | **–** | – |
| Derivative financial instruments – interest rate swaps | **5,535** | 8,622 | **–** | – |
| Policyholder liability | **90,597** | – | **–** | – |
| Clearing, settlement and internal accounts | **85,208** | 130,216 | **–** | – |
| | **1,232,189** | 535,044 | **217,227** | 37,126 |
| Current | **1,141,592** | 535,044 | **217,227** | 37,126 |
| Non-current | **90,597** | – | **–** | – |
| | **1,232,189** | 535,044 | **217,227** | 37,126 |

The provision for performance bonuses is payable in September after the financial year-end.

Policyholder liability was acquired as part of the Entrepo transaction. Refer to note 40.

Interest rate swaps are commitments to exchange one set of cash flows for another and result in an economic exchange of a fixed rate for a floating rate or vice versa. No exchange of principal takes place.

The notional principal amount of the outstanding interest rate swap contracts, included above and in other assets (note 18) at 30 June 2018 was N$420.0 million (2017: N$420.0 million).

# Notes to the consolidated annual financial statements (continued)

## 29. DEFERRED INCOME TAX

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 32% (2017: 32%).

The movement on the deferred income tax account is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| Deferred tax (asset)/liability as at 1 July | (24,467) | (6,263) | – | – |
| Acquisition of subsidiaries | (2,233) | (27,905) | – | – |
| Sale of subsidiary | – | 2,477 | – | – |
| Charge to profit or loss (note 11) | (7,593) | 7,224 | (6,245) | – |
| Accelerated tax depreciation and amortisation | 26,708 | 6,350 | – | – |
| Loans and receivables | (27,262) | (1,763) | – | – |
| Government stock and other securities | (2,094) | (2,048) | – | – |
| Prepaid expenses | (2,329) | 55 | (6,245) | – |
| Accruals | 15,146 | (2,518) | – | – |
| Loan loss impairment | 9,858 | 983 | – | – |
| Assessed loss | (10,462) | 8,725 | – | – |
| Other | (17,158) | (2,560) | – | – |
| Deferred tax asset as at 30 June | (34,293) | (24,467) | (6,245) | – |
| | | | | |
| Deferred income tax assets and liabilities are attributable to the following items: | | | | |
| *Deferred income tax liability* | | | | |
| Accelerated tax depreciation and amortisation | 84,484 | 57,776 | – | – |
| Government stock and other securities | 3,417 | 5,511 | – | – |
| Prepaid expenses | 6,328 | 8,657 | – | – |
| | 94,229 | 71,944 | – | – |
| *Deferred income tax asset* | | | | |
| Accruals | 22,649 | 36,280 | 4,911 | – |
| Loan loss impairment | 19,785 | 29,643 | – | – |
| Assessed loss | 38,553 | 27,265 | 555 | – |
| Derivative financial instruments | 1,963 | 2,736 | – | – |
| Unrealised foreign exchange gains or losses | 17,356 | – | – | – |
| Loans and receivables | 27,262 | – | – | – |
| Other temporary differences | 954 | 487 | 779 | – |
| | 128,522 | 96,411 | 6,245 | – |
| Net deferred income tax asset | (34,293) | (24,467) | (6,245) | – |

# Notes to the consolidated annual financial statements (continued)

**29. DEFERRED INCOME TAX (continued)**

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| **Deferred tax liability** | | | | |
| Current | 17,139 | 14,168 | – | – |
| Non-current | 77,090 | 57,776 | – | – |
| Total | 94,229 | 71,944 | – | – |
| **Deferred tax asset** | | | | |
| Current | 105,645 | 89,342 | 6,245 | – |
| Non-current | 22,877 | 7,069 | – | – |
| Total | 128,522 | 96,411 | 6,245 | – |

**30. POST-EMPLOYMENT BENEFITS**

| | | Group | |
|---|---|---|---|
| | | 2018 N$'000 | 2017 N$'000 |
| 30.1 | **Severance pay liability** | | |
| | A valuation was performed for 30 June 2018 by an independent actuary on the group's liability with respect to severance pay. The benefit is not funded. | | |
| | The amount recognised in the consolidated statement of financial position is determined as follows: | | |
| | Present value of unfunded obligation (non-current) | 11,440 | 10,191 |
| | The movement in the severance pay obligation over the year is as follows: | | |
| | As at 1 July | 10,191 | 9,460 |
| | Current service costs | 1,196 | (79) |
| | Interest cost | 945 | 810 |
| | Past service cost | 551 | – |
| | Benefits paid | (112) | – |
| | Actuarial gain | (1,331) | – |
| | As at 30 June | 11,440 | 10,191 |
| | The amounts recognised in the consolidated statement of comprehensive income are as follows: | | |
| | Current service costs | 1,196 | (79) |
| | Past service cost | 551 | – |
| | Interest cost | 945 | 810 |
| | | 2,692 | 731 |
| | **The principal actuarial assumptions used were as follows:** | % | % |
| | Discount rate | 8.5 | 8.6 |
| | Inflation rate | 6.4 | 6.4 |
| | Salary increases | 6.4 | 7.4 |
| | The following sensitivity of the overall liability to changes in principal assumption is: | | |
| | Salary increase 1% lower per annum | 565 | 8,924 |
| | Salary increase 1% higher per annum | 636 | 10,053 |

# Notes to the consolidated annual financial statements (continued)

**30. POST-EMPLOYMENT BENEFITS (continued)**

**30.2 Medical aid scheme**

The group has no liability in respect of post-retirement medical aid contributions.

**30.3 Pension schemes**

All full-time permanent employees are members of the CIH Group Retirement Fund, a defined contribution plan, which has been registered in Namibia in accordance with the requirements of the Pension Funds Act. The fund is governed by the Pension Funds Act, 1956, which requires a statutory actuarial valuation every three years. The latest statutory actuarial valuation was carried out on 31 March 2016 and in the actuary's opinion the fund was in a sound financial position at that date. The valuation confirmed that the value of the assets in the fund exceeded the value of the actuarially determined liabilities.

The group currently contributes 12% of basic salary to the fund, while the members contribute 7.5%. Post-employment benefits are classified as non-current liabilities.

**31. SHARE CAPITAL AND PREMIUM**

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| ***Authorised share capital*** | | | | |
| 600,000,000 ordinary shares of 2.5 cents each | **15,000** | 15,000 | **15,000** | 15,000 |
| 1,000,000 redeemable preference shares of 1 cent each | **10** | 10 | **10** | 10 |
| ***Issued ordinary share capital*** | | | | |
| Balance as at 1 July | **12,922** | 12,632 | **12,922** | 12,632 |
| Shares issued during the year | **58** | 290 | **58** | 290 |
| Balance as at 30 June | **12,980** | 12,922 | **12,980** | 12,922 |
| ***Share premium*** | | | | |
| Balance as at 1 July | **724,116** | 527,234 | **724,116** | 527,234 |
| Shares issued during the year | **41,450** | 196,882 | **41,450** | 196,882 |
| Balance at 30 June | **765,566** | 724,116 | **765,566** | 724,116 |
| Less: Treasury shares | **(54,039)** | (52,373) | **(8,613)** | (9,774) |
| **Total ordinary share capital and premium** | **724,507** | 684,665 | **769,933** | 727,264 |
| ***Issued number of ordinary shares reconciliation ('000):*** | | | | |
| Issued number of shares at the beginning of the year | **516,878** | 505,280 | **516,878** | 505,280 |
| Shares issued during the year | **2,306** | 11,598 | **2,306** | 11,598 |
| Issued number of shares at the end of the year | **519,184** | 516,878 | **519,184** | 516,878 |
| Less: Treasury shares | **(6,688)** | (6,939) | **(716)** | (812) |
| **Total number of ordinary shares issued at year-end** | **512,496** | 509,939 | **518,468** | 516,066 |

# Notes to the consolidated annual financial statements (continued)

## 31. SHARE CAPITAL AND PREMIUM (continued)

***Issued preference share capital***

The company issued 40,000 new preference shares on 1 July 2017. Interest is payable quarterly in arrears on the last working day of March, June, September and December.

10,000 new preference shares were issued by the company on 15 February 2018. Interest is payable quarterly in arrears on the 15th day of February, May, August and November.

***Unissued shares***

All the unissued shares are under the control of the directors in terms of a general authority to allot and issue them on such terms and conditions and at such time as they deem fit. This authority expires at the forthcoming annual general meeting on 30 October 2018, when the authority can be renewed. Refer to the directors' report.

The company's total number of issued ordinary shares at year-end was 519,184,399 (2017: 516,878,336). All issued shares are fully paid up.

## 32. NET ASSET VALUE PER SHARE

| | Group | |
|---|---|---|
| | **2018** | **2017** |
| *Net asset value per ordinary share (cents)* | | |
| Net assets (excl. NCI) (N$'000) | **5,614,691** | 5,056,382 |
| Weighted average number of ordinary shares in issue during the year ('000) | **510,766** | 504,140 |
| Net asset value per share (cents) | **1,099** | 1,003 |

## 33. SHARE-BASED PAYMENTS

The group operates two equity-settled share-based compensation plans: (1) a share appreciation rights plan and (2) a conditional share plan, under which the entities within the group receive services from employees as consideration for equity instruments (shares) of Capricorn Group (refer to the remuneration report (unaudited) for details of each plan).

The total expense for the share-based compensation plans is N$8,9 million in 2018 (2017: N$9.1 million), refer to note 8.

*Share appreciation rights (SAR)*

Share appreciation rights (SAR) are granted to executive directors and to selected employees for no consideration (exercise price of zero). The number of Capricorn Group shares to which each employee is entitled upon the exercise of the SAR will be calculated with reference to the increase in the value of the employer company or Capricorn Group's share price over the period from grant date to the exercise date. SAR are conditional on the employee completing three years' service after grant date (the vesting period), and subject to the relevant employer company achieving its pre-determined performance conditions over the performance period. SAR are exercisable from the vesting date and have a contractual term of five years. The group has no legal or constructive obligation to repurchase or settle the SAR in cash.

# Notes to the consolidated annual financial statements (continued)

**33. SHARE-BASED PAYMENTS (continued)**

*Share appreciation rights (SAR) (continued)*

Details of the number of SAR outstanding ('000) are as follows:

| | Capricorn Group | Bank Windhoek | Capricorn Asset Management | Capricorn Unit Trust Management | Capricorn Investment Holdings (Botswana) | Total |
|---|---|---|---|---|---|---|
| **30 June 2018** | | | | | | |
| Opening balance | **466** | **578** | **150** | **78** | **180** | **1,452** |
| Granted | **269** | **257** | **42** | **–** | **41** | **609** |
| Vested | **(130)** | **(72)** | **(61)** | **–** | **(11)** | **(274)** |
| Forfeitures | **(128)** | **(211)** | **(1)** | **(42)** | **(79)** | **(461)** |
| Closing balance | **477** | **552** | **130** | **36** | **131** | **1,326** |
| **30 June 2017** | | | | | | |
| Opening balance | 368 | 613 | 109 | 84 | – | 1,174 |
| Acquisition of subsidiary | – | – | – | – | 250 | 250 |
| Granted | 274 | 229 | 99 | – | 54 | 656 |
| Vested | (24) | (233) | (58) | (6) | (124) | (445) |
| Forfeitures | (152) | (31) | – | – | – | (183) |
| Closing balance | 466 | 578 | 150 | 78 | 180 | 1,452 |

SARs issued in September 2013 vested in September 2016 and were exercised during the current financial year.

No SAR expired during the periods covered by the above tables.

SARs outstanding ('000) at the end of the year have the following vesting and expiry dates:

| Grant date | Vest date | Expiry date | 2018 | 2017 |
|---|---|---|---|---|
| September 2014 | September 2017 | September 2019 | **–** | 370 |
| September 2015 | September 2018 | September 2020 | **362** | 426 |
| September 2016 | September 2019 | September 2021 | **356** | 656 |
| September 2017 | September 2020 | September 2022 | **608** | – |
| | | | **1,326** | 1,452 |
| The weighted average remaining contractual life of options outstanding at the end of the year | | | **3.2 years** | 3.1 years |

# Notes to the consolidated annual financial statements (continued)

## 33. SHARE-BASED PAYMENTS (continued)

*Share appreciation rights (SAR) (continued)*

The fair value of SAR granted during the year was determined by using the American Call Option valuation model. The significant inputs into the model are summarised in the table below. Refer to note 8 for the total expense recognised in profit or loss for SAR granted to directors and employees.

| | Capricorn Group |
|---|---|
| **30 June 2018** | |
| Spot and strike price (N$) | **18.10** |
| Risk-free rate | **7.7%** |
| Dividend yield | **3.8%** |
| Volatility | **30%** |
| Membership attrition | **5%** |
| **30 June 2017** | |
| Spot and strike price (N$) | 17.45 |
| Risk-free rate | 8.1 % |
| Dividend yield | 3.8 % |
| Volatility | 35 % |
| Membership attrition | 5 % |

*Conditional share plan (CSP)*

Capricorn Group shares are granted to selected employees for no consideration. The allocation of shares are conditional on the employee completing three years' service after grant date (the vesting period). The group has no legal or constructive obligation to repurchase or settle the shares in cash.

Details of the number of shares outstanding are as follows:

| | 2018 No. of CSPs '000 | 2017 No. of CSPs '000 |
|---|---|---|
| Opening balance | **1,322** | 1,248 |
| Acquisition of subsidiary | **–** | 118 |
| Granted | **646** | 485 |
| Vested | **(426)** | (369) |
| Sale of subsidiary | **–** | (64) |
| Forfeited | **(188)** | (96) |
| Closing balance | **1,354** | 1,322 |

## 33. SHARE-BASED PAYMENTS (continued)

*Conditional share plan (CSP) (continued)*

Outstanding number of CSPs ('000) expected to vest as follows:

| Grant date | Vest date | 2018 | 2017 |
|---|---|---|---|
| September 2014 | September 2017 | – | 534 |
| September 2015 | September 2018 | 366 | 332 |
| September 2016 | September 2019 | 466 | 456 |
| September 2017 | September 2020 | 522 | – |
| | | 1,354 | 1,322 |

The fair value of shares granted during the year was determined with reference to the listed share price at grant date of N$17.23 (2017: N$17.45) and taking into account a membership attrition of 5 % (2017: 5 %). Refer to note 8 for the total expense recognised in profit or loss for shares granted to executive directors and employees.

## 34. NON-DISTRIBUTABLE RESERVES

| | Group 2018 N$'000 | Group 2017 N$'000 |
|---|---|---|
| **34.1 Credit risk reserve** | | |
| Balance at 1 July | 197,650 | 185,261 |
| Transfer from retained earnings | 18,261 | 12,389 |
| Balance as at 30 June | 215,911 | 197,650 |
| The regulatory credit risk reserve was introduced in order to meet the regulatory requirements for the loan loss portfolio impairment of Bank Windhoek Ltd. | | |
| **34.2 Insurance fund reserve** | | |
| Balance at 1 July | 50,536 | 27,773 |
| Transfer from retained earnings | 3,206 | 22,763 |
| Balance as at 30 June | 53,742 | 50,536 |
| The insurance reserve was created to fund a portion, net of deferred tax, of the regulatory requirement to hold a certain level of insurance specific for banking risk. | | |
| **Total non-distributable reserves** | 269,653 | 248,186 |

# Notes to the consolidated annual financial statements (continued)

## 35. DISTRIBUTABLE RESERVES

| | | Group | |
|---|---|---|---|
| | | 2018 N$'000 | 2017 N$'000 |
| 35.1 | **Fair value reserve** | | |
| | Balance as at 1 July | **145,165** | 129,782 |
| | Revaluation of available-for-sale equity instruments | **44,026** | 15,383 |
| | Reclassification to profit or loss | **(59,380)** | – |
| | Balance as at 30 June | **129,811** | 145,165 |
| 35.2 | **General banking reserve** | | |
| | Balance as at 1 July | **3,354,609** | 2,764,277 |
| | Transfer from retained earnings | **460,270** | 590,332 |
| | Balance as at 30 June | **3,814,879** | 3,354,609 |

The general banking reserve is maintained to fund future expansion.

| | | Group | |
|---|---|---|---|
| | | 2018 N$'000 | 2017 N$'000 |
| 35.3 | **Foreign currency translation reserve** | | |
| | Balance as at 1 July | **(873)** | – |
| | Revaluation for the year | **7,779** | (873) |
| | Change in shareholding | **(2,268)** | – |
| | Non-controlling interest | **(102)** | – |
| | Balance as at 30 June | **4,536** | (873) |

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| 35.4 | **Retained earnings** | | | | |
| | Balance as at 1 July | **608,336** | 641,611 | **485,318** | 560,439 |
| | Profit for the year | **922,556** | 909,429 | **393,125** | 258,364 |
| | Transfer to reserves | **(481,737)** | (625,484) | **–** | – |
| | Profit on sale of treasury shares | **2,690** | 269 | **–** | – |
| | Dividends paid | **(346,744)** | (329,516) | **(351,477)** | (333,485) |
| | Acquisition of subsidiary | **–** | 14,668 | **–** | – |
| | Change in ownership interest in subsidiary | **(50,643)** | (2,641) | **–** | – |
| | Balance as at 30 June | **654,458** | 608,336 | **526,966** | 485,318 |

# Notes to the consolidated annual financial statements (continued)

## 35. DISTRIBUTABLE RESERVES (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| **35.5 Share-based compensation reserve** | | | | |
| Balance as at 1 July | **16,294** | 13,290 | **10,293** | 8,166 |
| Share-based payment charges recognised in equity | **8,921** | 9,126 | **2,350** | 3,263 |
| Vesting of shares | **(8,368)** | (6,122) | **(2,003)** | (1,136) |
| Balance as at 30 June | **16,847** | 16,294 | **10,640** | 10,293 |

The share-based compensation reserve is used to recognise:

– the grant date fair value of share appreciation rights issued to employees but not exercised (refer to note 33); and

– the grant date fair value of conditional shares issued to employees (refer to note 33).

| | Group 2018 N$'000 | Group 2017 N$'000 | Company 2018 N$'000 | Company 2017 N$'000 |
|---|---|---|---|---|
| **Total distributable reserves** | **4,620,531** | 4,123,531 | **537,606** | 495,611 |

## 36. DIVIDENDS PER SHARE

Normal dividends amounting to N$351.5 million (2017: N$333.5 million) were declared and paid by the company during the year under review. The normal dividends declared represent interim and final dividends per share as follows:

| | Group 2018 N$'000 | Group 2017 N$'000 | Company 2018 N$'000 | Company 2017 N$'000 |
|---|---|---|---|---|
| *Declared during the financial year* | | | | |
| Interim dividend per share (cents) | | | **30** | 30 |
| *Declared after the financial year* | | | | |
| Final dividend per share (cents)* | | | **30** | 38 |
| Total dividend per share (cents) | | | **60** | 68 |
| Dividends declared during the year | **348,992** | 329,516 | **351,477** | 333,485 |
| Dividends paid during the year | **(348,992)** | (329,516) | **(351,477)** | (333,485) |
| Dividends payable at year-end | **–** | – | **–** | – |

* *Refer also to events subsequent to year-end in the directors' report for details of the final dividend declared after year-end.*

# Notes to the consolidated annual financial statements (continued)

## 37. STATEMENT OF CASH FLOWS DISCLOSURE INFORMATION

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| 37.1 | **Receipts from customers** | | | | |
| | Interest receipts | 4,199,223 | 3,624,695 | – | 2,392 |
| | Commission and fee receipts | 885,446 | 777,260 | – | – |
| | Other income received | 350,388 | 189,426 | 47,057 | 47,778 |
| | | 5,435,057 | 4,591,381 | 47,057 | 50,170 |
| 37.2 | **Payments to customers, suppliers and employees** | | | | |
| | Interest payments | 1,875,809 | (1,551,167) | – | (1,685) |
| | Cash payments to employees and suppliers | 1,684,670 | (1,308,366) | 93,094 | (74,952) |
| | | 3,560,479 | (2,859,533) | 93,094 | (76,637) |
| 37.3 | **Cash generated from/(utilised in) operations** | | | | |
| | Profit before income tax | 1,252,501 | 1,273,873 | 386,880 | 258,364 |
| | Dividends received | (12,201) | (22,173) | (444,919) | (277,274) |
| | Adjusted for non-cash items: | | | | |
| | – Effective interest on debt securities | 375,957 | 236,581 | 76,019 | 16,242 |
| | – Effective interest on deposits | 68,834 | 88,232 | – | – |
| | – Accrued interest on other borrowings | 127,473 | 101,003 | 2,454 | – |
| | – Interest receivable | – | (3,951) | (68,351) | (15,512) |
| | – Adjustment to fair value of financial instruments | 10,767 | 2,479 | 10,767 | (12,904) |
| | – Amortisation of intangible assets | 49,827 | 24,960 | – | – |
| | – Depreciation of property, plant and equipment | 47,261 | 48,035 | – | – |
| | – Share-based payment expense | 8,921 | 9,126 | 2,350 | 3,263 |
| | – Profit on sale of residential units | (5,600) | (2,531) | – | – |
| | – Gain on bargain purchase | (38,837) | – | – | – |
| | – Loss/(profit) on sale of property, plant and equipment | 66 | (276) | – | – |
| | – Loss on sale of subsidiary | – | 3,309 | – | 4,127 |
| | – Impairment charges on loans and advances | 80,840 | 57,998 | – | – |
| | – Provision for post-employment benefits | 2,692 | 731 | – | – |
| | – Share of associates' results after tax | (83,236) | (78,100) | – | – |
| | – Share of joint arrangements' results after tax | (1,148) | (1,094) | – | – |
| | – Other | (9,539) | (6,354) | (11,237) | (2,773) |
| | | 1,874,578 | 1,731,848 | (46,037) | (26,467) |
| | In the statement of cash flows, proceeds from sale of property, plant and equipment comprise of: | | | | |
| | Net book value (note 23) | 2,258 | 1,484 | – | – |
| | Profit on sale of property, plant and equipment (note 7.3) | (66) | 276 | – | – |
| | **Proceeds from sale of property, plant and equipment** | 2,192 | 1,760 | – | – |

# Notes to the consolidated annual financial statements (continued)

**37. STATEMENT OF CASH FLOWS DISCLOSURE INFORMATION (continued)**

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2018 N$'000** | **2017 N$'000** | **2018 N$'000** | **2017 N$'000** |
| **37.4** | **Income taxes paid** | | | | |
| | Amounts receivable/(payable) as at 1 July | **71,780** | 58,376 | **685** | 578 |
| | Current tax charged to profit or loss | **(325,659)** | (349,028) | **–** | – |
| | Acquisition of subsidiary | **–** | (27,142) | **–** | – |
| | Sale of subsidiary | **–** | 165 | **–** | – |
| | Taxes not yet received | **–** | 4,951 | **873** | 685 |
| | Amounts (receivable)/payable as at 30 June | **(62,341)** | (71,780) | **(1,558)** | (685) |
| | **Income taxes paid during the year** | **(316,220)** | (384,458) | **–** | 578 |
| **37.5** | **Proceeds on sale of subsidiary** | | | | |
| | Cash consideration received | **–** | 4,719 | **–** | 4,719 |
| | Subsidiary cash and cash equivalents sold | **–** | 5,168 | **–** | – |
| | Net cash in flow on sale of subsidiary | **–** | 9,887 | **–** | 4,719 |
| **37.6** | **Acquisition of subsidiaries** | | | | |
| | Non-cash portion | | | | |
| | Acquisition by means of debt securities | **–** | 197,172 | **–** | 197,172 |
| | Acquisition by means of equity | **41,508** | 197,172 | **41,508** | 197,172 |
| | Acquisition by means of deferred consideration | **–** | 22,361 | **–** | 22,361 |
| | | **41,508** | 416,705 | **41,508** | 416,705 |
| | *Cash portion* | | | | |
| | Cash consideration paid | **(280,193)** | (48,992) | **(280,193)** | (48,992) |
| | Subsidiary cash and cash equivalents acquired | **107,427** | 1,111,650 | **–** | – |
| | Net cash in/(out) flow on acquisition of subsidiary | **(172,766)** | 1,062,658 | **(280,193)** | (48,992) |
| **37.7** | **Non-cash financing activities** | | | | |
| | Funding by means of debenture | **–** | 395,322 | **–** | 395,322 |

The debenture consists of N$197.2 million for financing of the acquisition of subsidiaries and N$198.1 million for the intergroup debt consolidation.

# Notes to the consolidated annual financial statements (continued)

## 38. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

| | | Group | |
|---|---|---|---|
| | | 2018 N$'000 | 2017 N$'000 |
| 38.1 | **Capital commitments** | | |
| | *Authorised but not contracted for:* | | |
| | Property, plant and equipment | **67,887** | 118,097 |
| | Intangible assets | **117,446** | 183,116 |
| | *Contracted for but not yet incurred:* | | |
| | For completion of residential units – Ondangwa phase 3 | **9,393** | 88,107 |
| | | **194,726** | 389,320 |

Capital commitments for Ondangwa phase 3 relate to the development of residential units by Namib Bou (Pty) Ltd.

Funds to meet these commitments will be provided from group resources.

| | | 2018 N$'000 | 2017 N$'000 |
|---|---|---|---|
| 38.2 | **Letters of credit** | **315,491** | 100,373 |
| 38.3 | **Liabilities under guarantees** | **1,380,115** | 1,495,326 |
| | Guarantees mainly consist of endorsements and performance guarantees. | | |
| 38.4 | **Loan commitments** | **1,714,759** | 1,763,653 |
| 38.5 | **Operating lease commitments** | | |
| | *Office premises* | | |
| | – Not later than 1 year | **61,962** | 67,559 |
| | – Later than 1 year but not later than 5 years | **87,165** | 61,400 |
| | – Later than 5 years | **–** | 8,997 |
| | | **149,127** | 137,956 |

Notice periods on operating lease contracts vary between 1 to 6 months (2017: 1 to 6 months). Operating lease contracts are not fixed and escalation clauses range between 6% and 12% (2017: 6% and 12%).

The group has various operating lease agreements, of which the majority contain renewal options. The lease terms do not contain restrictions on the group's activities concerning further leasing, distribution of dividends or obtaining additional funding.

**38.6 Pending litigations**

There are a few pending legal or potential claims against the group, the outcome of which cannot at present be foreseen. These claims are not regarded as material, either on an individual or group basis.

# Notes to the consolidated annual financial statements (continued)

## 39. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| For the purpose of the statement of cash flows, cash and cash equivalents comprise the following balances with less than 90 days maturity: | | | | |
| Cash and balances with the central banks – excluding mandatory reserve (note 13) | **1,017,532** | 868,274 | **104,123** | 140,643 |
| Treasury bills and government stock with a maturity of less than 90 days | **1,571,198** | 1,425,510 | **–** | – |
| Money market investments (note 14) | **1,091,826** | 1,116,990 | **31,972** | 203,580 |
| Placement with other banks (note 16) | **1,773,529** | 2,198,596 | **–** | – |
| Borrowings from other banks (note 24) | **(252,683)** | (317,914) | **–** | – |
| | **5,201,402** | 5,291,456 | **136,095** | 344,223 |

## 40. RELATED PARTIES

In accordance with IAS 24, the group defines related parties as:

(i) the parent company;

(ii) subsidiaries;

(iii) associate companies;

(iv) entities that have significant influence over the group. If an investor has significant influence over the group that investor and its subsidiaries are related parties of the group. The group is Capricorn Group and its subsidiaries;

(v) post-retirement benefit funds (pension fund);

(vi) key management personnel being the Capricorn Group board of directors and the group's executive management team;

(vii) close family members of key management personnel (individual's spouse/domestic partner and children; domestic partner's children and dependants of individual or domestic partner); and

(viii) entities controlled, jointly controlled or significantly influenced by any individual referred to in (vi) and (vii).

Capricorn Group is listed on the Namibian Stock Exchange and is 41.0% (2017: 40.7%) owned by Capricorn Investment Holdings Ltd and 25.9% (2017: 26%) owned by Government Institutions Pension Fund, its non-listed major shareholders, which is incorporated in Namibia.

Details of subsidiaries, associates and joint arrangements are disclosed in notes 19, 20 and 21.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. No impairment has been recognised in respect of loans granted to key management personnel during the year under review (2017: nil).

# Notes to the consolidated annual financial statements (continued)

**40. RELATED PARTIES (continued)**

During the year, the group and company transacted with the following related parties:

| Entity | Relationship | Type of transaction |
|---|---|---|
| Capricorn Investment Holdings Ltd | Major shareholder | Support services<br>Banking relationship |
| Government Institutions Pension Fund | Major shareholder | Support services<br>Banking relationship |
| Capricorn Investment Holdings (Botswana) Ltd | Subsidiary | Banking relationship |
| Bank Gaborone Ltd | Subsidiary | Support services<br>Banking relationship |
| Capricorn Asset Management (Pty) Ltd | Subsidiary | Support services<br>Banking relationship |
| Capricorn Capital (Pty) Ltd | Subsidiary | Support services<br>Banking relationship |
| Capricorn Unit Trust Management Company Ltd | Subsidiary | Banking relationship |
| Cavmont Capital Holdings Zambia Plc | Subsidiary | Support services<br>Banking relationship |
| Cavmont Bank Ltd | Subsidiary | Support services<br>Banking relationship |
| Nam-mic Financial Services Holdings (Pty) Ltd | Fellow associate | Support services<br>Banking relationship |
| Nam-mic Financial Solutions (Pty) Ltd | Fellow associate | Support services<br>Banking relationship |
| Nam-mic Payment Solutions (Pty) Ltd | Fellow associate | Support services<br>Banking relationship |
| Bank Windhoek Ltd | Subsidiary | Support services<br>Banking relationship |
| Namib Bou (Pty) Ltd | Subsidiary | Support services<br>Banking relationship |
| Entrepo Holdings (Pty) Ltd | Subsidiary | Banking relationship |
| Entrepo Life Ltd | Subsidiary | Banking relationship |
| Entrepo Finance (Pty) Ltd | Subsidiary | Banking relationship |
| Nimbus Infrastructure Ltd | Associate | Banking relationship |
| Santam Namibia Ltd | Associate | Dividends<br>Banking relationship<br>Insurance relationship |
| Sanlam Namibia Holdings (Pty) Ltd | Associate | Dividends<br>Banking relationship<br>Insurance relationship |
| Capricorn Asset Management (Botswana) (Pty) Ltd | Subsidiary | Banking relationship<br>Support services |
| Bank Windhoek Properties (Pty) Ltd | Subsidiary | Rental |
| BW Finance (Pty) Ltd | Subsidiary | Support services<br>Banking relationship |
| Namclear (Pty) Ltd | Joint venture | Technology services |
| Capricorn Group Employee Share Ownership Trust | Special purpose entity | Banking relationship |
| Capricorn Group Employee Share Benefit Trust | Special purpose entity | Banking relationship |

## 40. RELATED PARTIES (continued)

| | | Group 2018 N$'000 | Group 2017 N$'000 | Company 2018 N$'000 | Company 2017 N$'000 |
|---|---|---|---|---|---|
| | The volumes of related party transactions and outstanding balances at year-end are as follows: | | | | |
| 40.1 | **Trade and other receivables from related parties** | | | | |
| | Major shareholders | 34 | 4,443 | – | 4,295 |
| | Subsidiaries | – | – | 43,445 | 24,683 |
| | Other indirect related parties | 5,847 | 49 | 5,326 | 49 |
| 40.2 | **Loans and advances to related parties** | | | | |
| | Subsidiaries | – | – | 54,181 | – |
| | Other indirect related parties | 13,578 | – | 18,617 | 23,866 |
| | Key management personnel | 35,480 | 47,367 | – | – |
| 40.3 | **Cash and cash equivalents held by related parties** | | | | |
| | Subsidiaries | – | – | 104,119 | 140,639 |
| 40.4 | **Preference shares advanced to related parties** | | | | |
| | Subsidiaries | – | – | 202,060 | 200,411 |
| 40.5 | **Trade and other payables to related parties** | | | | |
| | Major shareholders | 190,710 | 7,086 | 190,710 | – |
| | Subsidiaries | – | – | 5,634 | 16,226 |
| | Other indirect related parties | 1,836 | 63 | 1,151 | – |
| 40.6 | **Deposits from related parties** | | | | |
| | Major shareholders | 162,864 | 863,923 | – | – |
| | Other indirect related parties | 262,430 | 364,637 | – | – |
| | Key management personnel | 1,095 | 135,474 | – | – |
| 40.7 | **Debt securities issued to related parties** | | | | |
| | Major shareholders | 1,313,929 | 1,715,447 | 506,158 | 907,327 |
| | Other indirect related parties | 532,114 | 25,142 | 532,114 | 25,142 |
| 40.8 | **Expenses paid to related parties** | | | | |
| | Subsidiaries | – | – | 175 | 224 |
| | Other indirect related parties | 11,482 | 10,694 | – | – |

# Notes to the consolidated annual financial statements (continued)

## 40. RELATED PARTIES (continued)

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| **40.9** | **Interest and similar expenses paid to related parties** | | | | |
| | Major shareholders | **109,221** | 34,247 | **68,574** | 16,184 |
| | Other indirect related parties | **22,596** | 28,174 | **10,883** | – |
| | Key management personnel | **7** | 719 | **–** | – |
| **40.10** | **Income received from related party transactions** | | | | |
| | Major shareholders | **1,267** | 4,691 | **1,267** | 4,237 |
| | Fellow subsidiaries | **–** | 1,825 | **583** | 1,825 |
| | Subsidiaries | **–** | – | **42,382** | 34,460 |
| | Other indirect related parties | **13,290** | 16,341 | **12,864** | 16,309 |
| | Income received from related party transactions mainly relates to insurance related income and inter-group charges. | | | | |
| **40.11** | **Interest and similar income received from related parties** | | | | |
| | Major shareholders | **96** | 9 | **–** | – |
| | Subsidiaries | **–** | – | **15,916** | 11,888 |
| | Other indirect related parties | **4,830** | 2,344 | **978** | – |
| | Key management personnel | **2,047** | 4,298 | **–** | – |
| **40.12** | **Dividends received on ordinary shares from related parties** | | | | |
| | Subsidiaries | **–** | – | **347,779** | 177,718 |
| | Other indirect related parties | **92,730** | 79,729 | **92,730** | 79,729 |
| **40.13** | **Compensation paid to key management** | | | | |
| *40.13.1* | *Executive management team* | | | | |
| | Salaries | **37,692** | 34,265 | **5,315** | 4,958 |
| | Short-term incentives | **19,191** | 25,328 | **3,325** | 4,638 |
| | Long-term incentives | **4,410** | 2,978 | **1,125** | 1,050 |
| | Contribution to defined contribution medical schemes | **1,525** | 1,372 | **228** | 251 |
| | Contribution to defined contribution pension schemes | **2,629** | 2,341 | **391** | 692 |
| | Share-based payment charges | **5,658** | 3,348 | **1,673** | 564 |
| | Other allowances | **11,901** | 7,596 | **3,701** | 1,424 |
| | | **83,006** | 77,228 | **15,758** | 13,577 |

Compensation paid to key management comprises remuneration and other employee benefits to the executive management team, which excludes executive directors' emoluments.

# Notes to the consolidated annual financial statements (continued)

**40. RELATED PARTIES (continued)**

**40.13 Compensation paid to key management (continued)**

*40.13.2 Non-executive directors' emoluments*

| | Directors' fees | | |
|---|---|---|---|
| | **Paid by company N$'000** | **Paid by subsidiary N$'000** | **Total N$'000** |
| **30 June 2018** | | | |
| **Non-executive directors** | | | |
| Black, K B | **359** | **234** | **593** |
| Brandt, J C | **229** | **444** | **673** |
| Fourie, D G | **622** | **930** | **1,552** |
| Nakazibwe-Sekandi, G | **439** | **201** | **640** |
| Reyneke, D J | **357** | **–** | **357** |
| Schimming-Chase, E M | **224** | **–** | **224** |
| Shaetonhodi, J M | **253** | **–** | **253** |
| Shikongo, M K | **223** | **–** | **223** |
| Swanepoel, J J (Chairman) | **1,900** | **2,291** | **4,191** |
| **Total** | **4,606** | **4,100** | **8,706** |
| | | | |
| **30 June 2017** | | | |
| **Non-executive directors** | | | |
| Black, K B | 256 | 145 | 401 |
| Brandt, J C (Chairman) | 1,008 | 1,044 | 2,052 |
| Du Toit, F J | 487 | 365 | 852 |
| Fourie, D G | 511 | 594 | 1,105 |
| Nakazibwe-Sekandi, G | 241 | 186 | 427 |
| Schimming-Chase, E M | 169 | – | 169 |
| Shaetonhodi, J M | 161 | – | 161 |
| Shikongo, M K | 161 | 186 | 347 |
| Swanepoel, J J (Vice chairman) | 401 | 935 | 1,336 |
| **Total** | 3,395 | 3,455 | 6,850 |

Directors' fees consist of a quarterly retainer and a fee for attendance of meetings. No fees relating to other services (e.g. commission) have been paid during the 2018 and 2017 financial years.

# Notes to the consolidated annual financial statements (continued)

**40. RELATED PARTIES (continued)**

**40.13 Compensation paid to key management (continued)**

*40.13.3 Executive directors' emoluments*

| | Salary N$'000 | Short-term incentive N$'000 | Pension and medical contributions N$'000 | Other allowances and fringe benefits N$'000 | Total N$'000 |
|---|---|---|---|---|---|
| **30 June 2018** | | | | | |
| ***Executive directors*** | | | | | |
| Prinsloo, M J | **1,774** | **3,522** | **180** | **900** | **6,376** |
| | **1,774** | **3,522** | **180** | **900** | **6,376** |

| | Salary and bonuses N$'000 | Short-term incentive N$'000 | Pension and medical contributions N$'000 | Other allowances and fringe benefits N$'000 | Total N$'000 |
|---|---|---|---|---|---|
| **30 June 2017** | | | | | |
| ***Executive directors*** | | | | | |
| Prinsloo, M J | 1,658 | 2,548 | 221 | 894 | 5,321 |
| | 1,658 | 2,548 | 221 | 894 | 5,321 |

The executive director did not receive any other fees for service as a director or any emoluments other than that disclosed.

# Notes to the consolidated annual financial statements (continued)

**40. RELATED PARTIES (continued)**

**40.14 Directors' holdings in Capricorn Group shares**

| | 2018 | | | 2017 | |
|---|---|---|---|---|---|
| | **Number of ordinary shares acquired/ (sold) during the current year** | **Number of ordinary shares at year-end** | **% held** | **Number of ordinary shares at year-end** | **% held** |
| *Direct holding:* | | | | | |
| Black, K B | – | 38,636 | 0.01% | 38,636 | 0.01 % |
| Nakazibwe-Sekandi, G | – | 1,795,784 | 0.35% | 1,795,784 | 0.35 % |
| Shaetonhodi, J M | – | 70,300 | 0.01% | 70,300 | 0.01 % |
| Shikongo, M K | – | 82,000 | 0.02% | 82,000 | 0.02 % |
| Prinsloo, M J[1] | 81,166 | 2,265,850 | 0.44% | 2,184,684 | 0.42 % |
| Schimming-Chase, E M | – | 1,200 | 0.00% | 1,200 | 0.00 % |
| Fourie, D G | – | 35,700 | 0.01% | 35,700 | 0.01 % |
| *Indirect holding:* | | | | | |
| Swanepoel, J J (Chairman) | | | 4.25% | | 4.21 % |
| Brandt, J C | | | 21.16% | | 20.96 % |
| Prinsloo, M J | | | 0.13% | | 0.14 % |

[1] *Movement due to maturing of shares under the share purchase scheme.*

All shareholdings are beneficial.

No change occurred to the above shareholdings between year-end and not more than one month prior to the date of the notice of the AGM.

**41. ASSETS UNDER CUSTODY**

As at year-end, the group has no assets under custody (2017: nil).

**42. CONSOLIDATED STRUCTURED ENTITIES**

The group assesses whether it has control over structured entities in terms of IFRS 10. Where the group has control over a structured entity it is consolidated in terms of IFRS 10. The group's structured entities are the Capricorn Group Employee Share Ownership Trust and Capricorn Group Employee Share Benefit Trust.

The group has control over these structured entities, as the trustees are appointed by the group's board of directors. The structured entities are therefore consolidated.

No contractual obligation exists for the group to provide any financial or other support to the consolidated structured entities. The group will provide financial support from time to time for the purchase of shares for the share incentive schemes. During the 2018 financial year, the group provided financial support of N$18.6 million (2017: N$23.9 million) to the Capricorn Group Employee Share Ownership Trust.

# Notes to the consolidated annual financial statements (continued)

**43. SEGMENT INFORMATION**

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

In assessing the performance of the banking operations, the managing director reviews the various aggregated revenue streams, the total costs and the assets and liabilities related to the banking activities. The financial information included below is based on the banks' audited annual financial statements which complies with IFRS measurement and recognition criteria. In order to reconcile to the statement of comprehensive income and statement of financial position all entities that do not qualify as separate segments, as well as consolidation journal entries, are included in the "other" column.

**43.1 Entity-wide disclosures**

*43.1.1 Products and services*

**Operating segments**

Banking operations – Namibia

Banking operations – Botswana

**Brand**

Bank Windhoek Ltd

Bank Gaborone Ltd

**Description**

Corporate and executive banking, retail banking services and specialist finance.

**Product and services**

Bank Windhoek Ltd and Bank Gaborone Ltd conduct business as registered banks and provide comprehensive banking services. Clients include both individuals and corporate clients.

*43.1.2 Geographical segments*

There are no other material segment operations outside Namibia and Botswana.

*43.1.3 Major customers*

Segment reporting requires the disclosure of an entity's reliance on its major customers, if revenue from transactions with a single customer is ten percent or more of the entity's revenue. The group does not have customers that contribute ten percent or more to its revenue and is therefore not reliant on a single major customer.

# Notes to the consolidated annual financial statements (continued)

## 43. SEGMENT INFORMATION (continued)

### 43.2 Financial information

| | Banking – Namibia | | Banking – Botswana | | Other | | Group | |
|---|---|---|---|---|---|---|---|---|
| | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| Net interest income – external | **1,513,457** | 1,499,254 | **232,036** | 116,728 | **73,404** | 33,515 | **1,818,897** | 1,649,497 |
| Net interest income – internal | **(3,367)** | (12,592) | **–** | – | **3,367** | 12,592 | **–** | – |
| Impairment charges on loans and advances | **(58,069)** | (46,572) | **(24,377)** | (10,467) | **1,606** | (959) | **(80,840)** | (57,998) |
| **Net interest income after loan impairment charges** | **1,452,021** | 1,440,090 | **207,659** | 106,261 | **78,377** | 45,148 | **1,738,057** | 1,591,499 |
| Non-interest income | **937,509** | 798,868 | **57,926** | 28,073 | **229,733** | 171,244 | **1,225,168** | 998,185 |
| **Operating income** | **2,389,530** | 2,238,958 | **265,585** | 134,334 | **308,110** | 216,392 | **2,963,225** | 2,589,684 |
| Operating expenses | **(1,296,349)** | (1,131,523) | **(196,306)** | (90,914) | **(302,453)** | (172,568) | **(1,795,108)** | (1,395,005) |
| **Operating profit** | **1,093,181** | 1,107,435 | **69,279** | 43,420 | **5,657** | 43,824 | **1,168,117** | 1,194,679 |
| Share of joint arrangement and associates' results after tax | **1,148** | 1,094 | **–** | – | **83,236** | 78,100 | **84,384** | 79,194 |
| **Profit before income tax** | **1,094,329** | 1,108,529 | **69,279** | 43,420 | **88,893** | 121,924 | **1,252,501** | 1,273,873 |
| Income tax expense | **(297,557)** | (333,096) | **(17,149)** | (5,831) | **(3,360)** | (17,325) | **(318,066)** | (356,252) |
| **Profit for the year** | **796,772** | 775,433 | **52,130** | 37,589 | **85,533** | 104,599 | **934,435** | 917,621 |
| Change in value of available-for-sale financial assets | **44,026** | 15,383 | **–** | – | **–** | – | **44,026** | 15,383 |
| Exchange differences on translation of foreign operations | **–** | – | **–** | – | **7,779** | (1,949) | **7,779** | (1,949) |
| **Total comprehensive income** | **840,798** | 790,816 | **52,130** | 37,589 | **93,312** | 102,650 | **986,240** | 931,055 |

# Notes to the consolidated annual financial statements (continued)

## 43. SEGMENT INFORMATION (continued)

### 43.2 Financial information (continued)

| | Banking – Namibia | | Banking – Botswana | | Other | | Group | |
|---|---|---|---|---|---|---|---|---|
| | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| **ASSETS** | | | | | | | | |
| Cash and balances with the central bank | **1,221,703** | 1,083,165 | **259,360** | 245,944 | **161,494** | 213,961 | **1,642,557** | 1,543,070 |
| Financial assets designated at fair value through profit or loss | **4,166,953** | 3,058,347 | **395,333** | 382,263 | **683,695** | 528,025 | **5,245,981** | 3,968,635 |
| Financial assets at amortised cost | **624,715** | 41,621 | **–** | – | **249,537** | 258,066 | **874,252** | 299,687 |
| Investment securities | **134,028** | 149,381 | **–** | – | **–** | – | **134,028** | 149,381 |
| Due from other banks | **749,021** | 860,615 | **892,695** | 1,206,070 | **131,813** | 131,911 | **1,773,529** | 2,198,596 |
| Loans and advances to customers | **29,763,659** | 28,507,718 | **4,739,865** | 4,092,664 | **1,730,894** | 833,540 | **36,234,418** | 33,433,922 |
| Other assets | **274,478** | 240,091 | **55,653** | 34,593 | **282,339** | 175,581 | **612,470** | 450,265 |
| Current tax asset | **44,282** | 54,842 | **974** | 676 | **17,466** | 16,902 | **62,722** | 72,420 |
| Investment in associates | **–** | – | **–** | – | **282,511** | 245,782 | **282,511** | 245,782 |
| Interest in joint arrangements | **7,341** | 6,193 | **–** | – | **–** | – | **7,341** | 6,193 |
| Intangible assets | **182,476** | 197,648 | **26,372** | 31,493 | **75,085** | 62,539 | **283,933** | 291,680 |
| Property, plant and equipment | **172,955** | 171,417 | **29,968** | 21,867 | **35,523** | 39,524 | **238,446** | 232,808 |
| Deferred tax asset | **–** | – | **2,033** | 608 | **39,465** | 27,867 | **41,498** | 28,475 |
| **Total assets** | **37,341,611** | 34,371,038 | **6,402,253** | 6,016,178 | **3,689,822** | 2,533,698 | **47,433,686** | 42,920,914 |
| **LIABILITIES** | | | | | | | | |
| Due to other banks | **63,037** | 140,611 | **26** | 32,976 | **189,620** | 144,327 | **252,683** | 317,914 |
| Other borrowings | **1,217,510** | 1,165,064 | **–** | – | **95,923** | – | **1,313,433** | 1,165,064 |
| Debt securities in issue | **3,537,990** | 3,031,181 | **333,134** | 270,632 | **905,950** | 803,764 | **4,777,074** | 4,105,577 |
| Deposits | **27,408,878** | 25,420,775 | **5,433,578** | 5,067,999 | **1,105,635** | 1,082,787 | **33,948,091** | 31,571,561 |
| Other liabilities | **314,200** | 294,270 | **98,526** | 164,404 | **819,463** | 76,370 | **1,232,189** | 535,044 |
| Current tax liability | **–** | – | **–** | – | **381** | 640 | **381** | 640 |
| Deferred tax liability | **7,205** | 4,008 | **–** | – | **–** | – | **7,205** | 4,008 |
| Post-employment benefits | **11,440** | 10,191 | **–** | – | **–** | – | **11,440** | 10,191 |
| **Total liabilities** | **32,560,260** | 30,066,100 | **5,865,264** | 5,536,011 | **3,116,972** | 2,107,888 | **41,542,496** | 37,709,999 |

# Notes to the consolidated annual financial statements (continued)

## 43. SEGMENT INFORMATION (continued)

### 43.2 Financial information (continued)

| | Banking – Namibia | | Banking – Botswana | | Other | | Group | |
|---|---|---|---|---|---|---|---|---|
| | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| **EQUITY** | | | | | | | | |
| Share capital and premium | **485,000** | 485,000 | **318,858** | 318,858 | **(79,351)** | (119,193) | **724,507** | 684,665 |
| Non-distributable reserves | **269,653** | 248,186 | **–** | – | **–** | – | **269,653** | 248,186 |
| Distributable reserves | **4,026,698** | 3,571,752 | **218,131** | 161,309 | **375,702** | 390,470 | **4,620,531** | 4,123,531 |
| | **4,781,351** | 4,304,938 | **536,989** | 480,167 | **296,351** | 271,277 | **5,614,691** | 5,056,382 |
| Non-controlling interests in equity | **–** | – | **–** | – | **276,499** | 154,533 | **276,499** | 154,533 |
| **Total shareholders' equity** | **4,781,351** | 4,304,938 | **536,989** | 480,167 | **572,850** | 425,810 | **5,891,190** | 5,210,915 |
| **Total equity and liabilities** | **37,341,611** | 34,371,038 | **6,402,253** | 6,016,178 | **3,689,822** | 2,533,698 | **47,433,686** | 42,920,914 |

## 44. ACQUISITIONS

*Acquisition of Nimbus Infrastructure Ltd (Nimbus)*

The group acquired 33.3% of Nimbus Infrastructure Ltd, a special purpose acquisition company for infrastructure development which owned 26.5% of Paratus Telecommunications (Pty) Ltd (Paratus), for a consideration of N$34.5 million. The effective date of the transaction is 9 October 2018.

Nimbus increased its shareholding in Paratus to 51.4% on 1 June 2018 through a share swap transaction. This transaction diluted the shareholding of Capricorn Group in Nimbus from 33.3% to 18.3%.

*Acquisition of Capricorn Investment Holdings (Botswana) Ltd (CIHB)*

The group acquired a further 15.6% shareholding interest in Capricorn Investment Holdings (Botswana) Ltd (CIHB), an investment holding company, which owns 100% of the share capital of Bank Gaborone Ltd, increasing its shareholding to 84.3% and accounted for as an equity transaction with non-controlling interest. The shares were acquired from Capricorn Investment Holdings Ltd (CIH) for a consideration of N$83.0 million. The effective date of the transaction was 1 January 2018.

| | Group |
|---|---|
| | 2018 N$'000 |
| *Capricorn Investment Holdings (Botswana) Ltd (CIHB)* | |
| Purchase consideration: | |
| Cash paid | **41,508** |
| Shares issued | **41,508** |
| **Total consideration transferred** | **83,016** |
| | |
| Carrying value of net assets attributable as at 1 January 2018 | **(76,873)** |
| **Recognised directly in equity** | **6,143** |

# Notes to the consolidated annual financial statements (continued)

## 44. ACQUISITIONS (continued)

*Acquisition of Entrepo (Pty) Ltd (Entrepo)*

The group acquired 55.5% of the share capital of Entrepo Holdings Ltd, an investment holding company, which owns 100% of the share capital of Entrepo Life Ltd and Entrepo Finance (Pty) Ltd, for a consideration of N$138.7 million. The effective date of the transaction was 28 June 2018.

| | Group 2018 N$'000 |
|---|---|
| Purchase consideration: | |
| Cash paid | 138,685 |
| **Total consideration transferred** | 138,685 |
| The assets and liabilities recognised as a result of the acquisition are as follows: | |
| Cash | 7,427 |
| Financial assets designated at fair value | 102,859 |
| Loans and advances to customers | 848,014 |
| Other assets | 159 |
| Property, plant and equipment | 2,255 |
| Deferred tax asset | 2,233 |
| Other liabilities | (643,087) |
| Net identifiable assets | 319,860 |
| Less: non-controlling interest | (142,338) |
| Less: gain on bargain purchase | (38,837) |
| Net assets acquired | 138,685 |

All assets and liabilities were considered to be fairly valued at acquisition date.

The group further invested N$100 million into Entrepo Holdings (Pty) Ltd in exchange for shares. The shareholding in Entrepo remained at 55.5% as shares were issued to the existing shareholders. This was accounted for as an equity transaction with non-controlling interest.

| | Group 2018 N$'000 |
|---|---|
| Purchase consideration: | |
| Cash paid | 100,000 |
| **Total consideration transferred** | 100,000 |
| Carrying value of net assets attributable to parent equity holders | (55,500) |
| **Recognised directly in equity** | 44,500 |

# GLOSSARY OF TERMS

**BASEL II**
The capital adequacy framework issued by the Bank for International Settlements aimed at aligning banks' capital requirements with relevant risk profile and risk practices.

**CAPITAL ADEQUACY REQUIREMENT (CAR)**
The minimum amount of capital required to be held, as determined by the Bank of Namibia.

**COST TO INCOME RATIO (%)**
Operating expenses, divided by total operating income.

**EARNINGS PER SHARE (CENTS)**
The group profit for the year attributable to the equity holders of the parent entity divided by the weighted average number of ordinary shares in issue during the year.

**FAIR VALUE**
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**GENERAL BANKING RESERVE**
The prescribed minimum impairment by Bank of Namibia on performing loans and advances. Allocations to this reserve are made from after-tax retained earnings.

**HEADLINE EARNINGS**
Profit for the year attributable to the equity holders of the parent entity from trading operations, excluding goodwill gains or losses, capital profits and losses and recycled profits or losses on available-for-sale financial instruments. Headline earnings do not measure sustainable earnings.

**HEADLINE EARNINGS PER SHARE (CENTS)**
Headline earnings divided by the weighted average number of ordinary shares in issue during the year.

**NET ASSET VALUE PER SHARE (CENTS)**
Net assets excluding non-controlling interest (NCI) divided by the weighted average number of ordinary shares in issue during the year.

**PRICE EARNINGS RATIO**
Closing share price (cents) divided by earnings per share (cents).

**PRICE TO BOOK RATIO**
Closing share price (cents) divided by net asset value per share (cents).

**RETURN ON AVERAGE ASSETS (ROA) (%)**
Group profit for the year attributable to the equity holders of the parent entity divided by average total assets.

**RETURN ON AVERAGE SHAREHOLDERS' EQUITY (ROE) (%)**
Group profit for the year divided by average total shareholders' equity.

**TIER I CAPITAL RATIO**
Net total Tier I capital (after deduction of goodwill and 50% of cost of investments in affiliates) divided by total risk-weighted assets.

**TIER II CAPITAL RATIO**
Net total Tier II capital (after deduction of 50% of cost of investments in affiliates) divided by total risk-weighted assets.

**TOTAL RISK-BASED CAPITAL RATIO**
Total regulatory capital (Tier I, II and III capital) divided by total risk-weighted assets.

**TIER I LEVERAGE RATIO**
Net total Tier I capital (after deduction of goodwill and 50% of cost of investments in affiliates) divided by gross assets (total assets plus specific and general impairment).

**THE CENTRAL BANK**
The Bank of Namibia (BoN).

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 22nd Annual General Meeting of the shareholders of Capricorn Investment Group Limited ("Capricorn Group" or "the company") will be held in the boardroom on the sixth floor of the Capricorn Group Building, Kasino Street, Windhoek, on Tuesday, 30 October 2018 at 16h30 for the following purposes:

Agenda:

1. To consider and adopt the group and company annual financial statements for the year ended 30 June 2018.
2. To confirm the ordinary dividends of 60 cents per share (2017: 68 cents per share) amounting to N$311 million.
3. To consider and, if accepted, approve by a non-binding advisory vote the remuneration policy set out in the Remuneration Report on pages 79 to 81.
4. To consider and, if accepted, approve the remuneration of the non-executive directors for the financial year ending 30 June 2019:

| | N$ annual retainer | N$ attendance per meeting | No. of meetings |
|---|---|---|---|
| Board of directors | **97,000** | **14,650** | **4** |
| Board executive committee | **16,600** | **6,620** | **10** |
| Board audit, risk and compliance committee | **33,200** | **17,220** | **4** |
| Group board remuneration committee | **8,300** | **9,280** | **4** |
| Group board nominations committee | **8,300** | **3,975** | **4** |
| Group board human resources committee | **16,600** | **7,940** | **4** |
| Group board investment committee | **16,600** | **ad hoc** | |
| Group board sustainability and ethics committee | **16,600** | **9,275** | **4** |
| Group board information technology committee | **16,600** | **23,850** | **4** |

A 75% premium is paid to the chairman of each of the committees and boards. The annual fee for the non-executive chairman of Capricorn Group is N$1,970,000.

5. To appoint Messrs PricewaterhouseCoopers as auditor for the new financial year.
6. To authorise the directors to determine the remuneration of the auditor.
7. To confirm the retirement of Mr M K Shikongo.
8. To elect directors in place of Messrs J C Brandt and D G Fourie, who retire by rotation but, being eligible, avail themselves for re-election. Biographical information of the directors is set out on pages 68 to 69 of the annual report.
9. To confirm the appointment of Mr M H Gaomab II as non-executive director. Mr Gaomab (48) is an Executive Director at the African Development Bank after having served as the CEO of the Namibian Competition Commission until 2016. Among others, he holds a BCom (Hons) in Economics and an MSc in Quantitative Development Economics. He was the chairman of the board of trustees of the GIPF from 2011 to 2016.
10. To confirm the appointment of Mr J J Esterhuyse as Financial Director. Mr Esterhuyse (40) joined Capricorn Group in January 2012 as Group Chief Financial Officer after spending seven years in London, among others as Associate Director at Barclays. He qualified as a Chartered Accountant (SA) in 2004.
11. To grant the directors, in terms of the provisions of section 229 of the Companies Act, a general authority to allot and issue the authorised but unissued ordinary shares of the company, upon such terms and conditions as they deem fit, subject to the provisions of the Banking Institutions Act and the Listing Requirements of the NSX.
12. To grant the directors, in terms of the provisions of section 229 of the Companies Act, a general authority to allot and issue the authorised but unissued preference shares of the company, upon such terms and conditions as they deem fit, subject to the provisions of the Banking Institutions Act and the Listing Requirements of the NSX.
13. To transact such other business as may be transacted at an annual general meeting.

Voting:

All holders of Capricorn Group shares will be entitled to attend and vote at the annual general meeting. On a show of hands, every holder of Capricorn Group shares who is present in person or, in the case of a company, the representative appointed in terms of section 196 of the Companies Act, shall have one vote. On a poll, the holders of ordinary shares present in person or by proxy will each be entitled to one vote for every ordinary share held.

Proxies:

A shareholder qualified to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend, speak and, on a poll, vote in his/her stead. A proxy need not also be a shareholder of the company.

In order to be effective, duly completed proxy forms must be delivered or posted to the company's transfer secretaries, Transfer Secretaries (Pty) Ltd, 4 Robert Mugabe Avenue (entrance on Burg Street), Windhoek (PO Box 2401, Windhoek, Namibia) to reach this address not less than 48 hours prior to the meeting.

By order of the board

**H von Ludwiger** *Company secretary*

*Windhoek 4 September 2018*

# PROXY FORM

I/we (full names) ________________

being a holder of ________ shares in Capricorn Investment Group Limited (the company),

hereby appoint (name) ________________

or failing him/her (name) ________________

or failing him/her the chairman of the meeting, as my/our proxy to attend, speak and vote on a show of hands or on a poll, for me and on my/our behalf at the annual general meeting of the company to be held on 30 October 2018 and at any adjournment thereof, in particular to vote as indicated below on the resolutions contained in the notice of the meeting:

Please indicate by inserting an "X" in the appropriate block (either "for", "against" or "abstain"). If no indication is given, the proxy may vote as he/she deems fit.

I/we desire as follows:

| Item | Description | For | Against | Abstain |
|---|---|---|---|---|
| 1 | Adoption of the annual financial statements | | | |
| 2 | Confirmation of dividends | | | |
| 3 | Approve the remuneration policy | | | |
| 4 | Approve the remuneration of the non-executive directors for the next financial year | | | |
| 5 | Re-appoint PwC as auditor | | | |
| 6 | Authorise directors to determine the auditor's remuneration | | | |
| 7 | Confirmation of Mr Shikongo's retirement | | | |
| 8.1 | Re-elect retiring director: Mr J C Brandt | | | |
| 8.2 | Re-elect retiring director: Mr D G Fourie | | | |
| 9 | Confirm appointment of Mr M H Gaomab II as non-executive director | | | |
| 10 | Confirm appointment of Mr J J Esterhuyse as financial director | | | |
| 11 | General authority to the directors to allot and issue ordinary shares | | | |
| 12 | General authority to the directors to allot and issue preference shares | | | |

Signed at ________________ on this ________________ day of ____________ 2018

Signature ________________________________

*(A shareholder entitled to attend and vote at a meeting shall be entitled to appoint a proxy or proxies to attend, speak and vote in his stead. A proxy need not be a shareholder of the company.)*

# Proxy form (continued)

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space(s) provided, with or without deleting "the chairman of the annual general meeting", but any such deletion must be initialled by the shareholder. The person whose name stands first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. Please insert an "X" in the relevant spaces according to how you wish your votes to be cast. However, if you wish to cast your votes in respect of a lesser number of shares than you own in the company, insert the number of ordinary shares held in respect of which you wish to vote. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of the shareholder's votes exercisable thereat. A shareholder or the proxy is not obliged to use all the votes exercisable by the shareholder or by the proxy, but the total of the votes cast and in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by the proxy.

3. Forms of proxy must be received at the company's transfer secretaries, Transfer Secretaries (Pty) Ltd, 4 Robert Mugabe Avenue (entrance on Burg Street), (PO Box 2401) Windhoek, Namibia not less than 48 hours prior to the meeting. Alternatively, forms of proxy may be sent to the company's transfer secretaries by way of telefax (+264 61 248531), provided that such telefaxes are received by the transfer secretaries not less than 48 hours prior to the meeting.

4. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.

5. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company's transfer secretaries or waived by the chairman of the annual general meeting.

6. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.

7. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries of the company.

8. The chairman of the annual general meeting may reject or accept a form of proxy which is completed and/or received, other than in accordance with these notes, if the chairman is satisfied as to the manner in which the shareholder wishes to vote.

9. Where there are joint holders of ordinary shares:
   i. any one holder may sign the form of proxy; or
   ii. the vote of the senior (for that purpose seniority will be determined by the order in which the names of the shareholders appear in Capricorn Investment Group Limited's register of shareholders) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholder(s).


Quiver Tree Forest near Keetmanshoop, Namibia

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