CAPRICORN INVESTMENT GROUP LIMITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (REVIEWED)

for the six months ended 31 December 2017

Capricorn Group

Contents

KEY RATIOS

6.4%
Profit after tax growth

14.4%
Net asset value per share growth

15.0%
Capital adequacy

30 cents
Dividend per share

ECONOMIC OVERVIEW

The Namibian economy continued to deteriorate throughout 2017 as the first three quarters of the year showed a 1.6% contraction, in inflation-adjusted terms, when compared to the same period of 2016. This contraction originated from a number of sectors, but was most noticeably the result of large contractions in the construction as well as the wholesale and retail trade sectors. During the three-quarter period, the amount of construction value addition activity in the country fell by 43% when compared to the first three quarters of 2016, while wholesale and retail trade activity fell by nearly 7%. Smaller contractions were also seen in public administration (i.e. government activity) and fishing.

The 2017 financial year will likely see Namibia posting its lowest growth in more than two decades. Following the contractions noted in all of the first three quarters of the year, and provided that no major revisions are submitted, fourth-quarter growth will have to be approximately 5%, in real terms, if the country is to avoid a contraction for the year.

For the upcoming year, however, signs of recovery are emerging, which are driven primarily by improving external conditions, particularly the positive political developments in the region, coupled with improving global tailwinds. This filters through to the domestic economy, and a number of primary-sector industries are expected to post reasonable growth in 2018. These include agriculture, tourism and mining, particularly, with the latter driven by growth in diamond, gold and copper output. In secondary industries, some recovery is expected in manufacturing output, which is largely driven by base effects, as well as water and electricity production, as a result of recent investments.

Despite this increasing list of positive developments, a number of major concerns remain, which are likely to dampen the growth outlook, at least to some degree. Namibian households remain under pressure, and this is likely to remain the case for the foreseeable future. This position is driven by a number of factors that have emerged, predominantly as a result of the general economic slowdown. The slowdown comes at a time when household debt levels are at an all-time high, relative to income, and unemployment is rising as the lowest levels are recorded in a decade and a half.

Similarly, the expectation for 2018 is that, while some respite may be seen in public finances, public spending will remain constrained, and thus will not be a key driver of growth for the year. As a result, the primary sources of growth for the year are expected to be investment, which is largely driven by local pension funds, as well as net exports, which have grown as a result of mining output expansion as new mines increase production.

As regards inflation, 2018 will be a relatively low inflation year, as both food and housing prices remain subdued – the former due to a stronger rand and improved regional cereal harvest, and the latter due to the subdued local economy.

Interest rates are unlikely to be increased in 2018, with the most likely scenario being that rates kept on hold at their current levels throughout the year.

Credit extension is also likely to remain subdued, although some growth is expected, at a slightly accelerated rate when compared to 2017, largely as a result of easing supply-side factors for credit. However, weaker household balance sheets will ensure that credit extension growth remains controlled due to constraints in affordability and creditworthiness.

ECONOMIC OVERVIEW (continued)

Botswana GDP growth is expected to be 4.5% for 2017, increasing to 4.8% in 2018. Over the next few years, growth is expected to remain at around 4%. Inflation is expected to be low in 2018 at 3.7%, despite a noted increase from the 2.8% of 2017. Over the next couple of years, inflation is forecast to remain low and not exceeding 4%.

Although still challenging, the Zambian economic environment improved during the period under review thanks to currency stability, the reduction in the inflation rate, the improved copper price and a reduction by the Bank of Zambia of its bank rate as well as the statutory reserve ratio. This improvement is expected to continue over the next few years, with growth estimated for 2017 at 4% (2016: 3.4%), which is set to increase to 4.5% in 2018.

Inflation spiked in 2016, before normalising somewhat at 6.8% in 2017. Going forward, as base effects are worked through the calculations, inflation is expected to rise again, while remaining within acceptable levels of 8% or below for the next few years.

FINANCIAL PERFORMANCE OVERVIEW

Group financial performance

Considering the market conditions in the countries where it operates, the group delivered satisfactory results with profit after tax for the six months ended 31 December 2017 increasing by 6.4% compared to the prior year.

Any reference to 'normalised' in this announcement means that, for the sake of meaningful comparison, the following adjustments have been made:

- prior period 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; and
- 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 December 2017 results.

Net interest income

Net interest income increased by 19.6% to N$896.7 million (Dec 2016: N$749.9 million) largely as a result of the acquisition of Capricorn Investment Holdings (Botswana) (CIHB) and Cavmont Capital Holdings Zambia (CCHZ), which contributed 21.8% to the year-on-year growth. The normalised net interest income shows a decrease of 0.7%, which is mainly due to the 25 bps interest rate cut in Namibia in August 2017, and 50 bps cut in Botswana in September 2017. Bank Windhoek (BW) also restructured its balance sheet with slower growth in loans and advances, and strong growth in liquid assets to reduce liquidity risk. With the liquid asset investments yielding lower returns, it also reduced BW's interest margin.

Impairment charges

Normalised impairment charges for bad and doubtful debts decreased by 17.3% to N$39.5 million (Dec 2016 normalised: N$47.7 million). Impairment charges for BW remained in line with the prior year, while the impairment charges of CIHB decreased by 31.8% as a result of large specific impairments in the prior year relating to two failures within the Botswana mining sector.

Non-interest income

Non-interest income increased by 26.1% to N$588.1 million (Dec 2016: N$466.5 million). Included in the increase is the capital profit of N$42.6 million on the sale of a portion of the shareholding in Visa Inc. On a normalised basis, non-interest income increased by 1.8% compared to the prior year. The marginal increase is mainly due to strong growth in transactional income and electronic channels within BW, offset by a contraction in trading revenue in both BW and CCHZ.

Operating expenses

Normalised operating expenses increased by 11.6% to N$840.7 million (Dec 2016: N$753.4 million). The above-inflation increase is mainly due to:

- three new branches opening in Namibia, including the private wealth suite, which resulted in an increase in headcount;
- capacity building within our digital channels, marketing and strategic customer capabilities; and
- technology costs increasing by 17.3% as a result of the continued investment in IT infrastructure.

The normalised cost to income ratio for the period under review is 59.9% compared to the normalised cost to income ratio of 54.1% for the comparative period.

Income from associates

Income from associates increased by 39.7% to N$51.4 million (Dec 2016: N$36.8 million) and contributed 10.6% (Dec 2016: 8.0%) to profit after tax. The year-on-year increase is due to an increase in profit reported by both Santam Namibia Ltd and Sanlam Namibia Holdings (Pty) Ltd.

FINANCIAL PERFORMANCE OVERVIEW (continued)

Loans and advances

Normalised loans and advances increased by 7.7% to N$34.1 billion (Dec 2016: N$31.7 billion). The modest growth is mainly due to subdued demand in both Namibia and Botswana, as well as the focused restructuring of the BW balance sheet to increase liquid assets and improve the group's loans to funding ratio. Non-performing loans as a percentage of gross advances weakened from 2.02% normalised to 2.96%, mainly as a result of a substantial increase in the value of non-performing loans at BW. This increase was mainly due to four large, but well secured, loans classified as non-performing during the period 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.

Investments

Historically, the group limited its investments in associates and subsidiaries to financial services businesses. As part of a deliberate strategy to diversify its investments beyond financial services, the group acquired a 33.3% interest in Nimbus Infrastructure Ltd when that company listed on the Namibian Stock Exchange (NSX). The group is currently exploring a number of other strategic investment opportunities, some of which are not in the financial services sector.

Funding

During the period under review, there was a deliberate strategic focus on improving the funding ratios of the group at all levels. Growth in BW funding well exceeded growth in loans and advances, thereby improving the group's loans to funding ratio to 88.1% (normalised 2016: 93.9%). Total funding increased by 34.9% to N$37.2 billion (Dec 2016: N$27.6 billion), mainly due to the acquisition of CIHB and CCHZ. BW's funding increased by 13.8%, largely due to good growth in term deposits and senior debt.

Total risk-based capital adequacy ratio

The group remains well capitalised with its total risk-based capital adequacy ratio of 15.0% (June 2017: 14.8%) remaining well above the minimum regulatory capital requirement of 10%. The group also maintains a stable AA credit rating outlook, which emphasises the confidence in the stability of the group.

Outlook

The group strongly believes that in order to remain relevant, it needs to continue to deliver on the needs of its customers, keep pace with the explosion in new, often disruptive, technologies; and to manage the increasing risks faced by the financial services sector. This requires us to be innovative and to continuously explore opportunities presented by new investments, new technologies and new product and service offerings. In addition, the group will continue its pursuit of operational excellence and a high-performance culture. Through these strategic actions, the group expects to improve efficiencies, realise cost savings, expand and diversify revenue streams, and better manage risks. The group, consequently, remains positive that, notwithstanding the subdued economic and business outlook, it will continue to deliver solid results and value to all stakeholders.

Interim dividend

Notice is hereby given that an interim dividend of 30 cents per ordinary share was declared on 20 February 2018 for the period ended 31 December 2017.

- Last day to trade cum dividend: 2 March 2018
- First day to trade ex dividend: 5 March 2018
- Record date: 9 March 2018
- Payment date: 20 March 2018

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

The directors are responsible for the preparation, integrity and objectivity of the condensed consolidated interim financial statements that fairly present the state of affairs of the company and the group at the end of the period, the net income and cash flow for the period 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, plays 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 period 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 condensed consolidated interim financial statements presented on pages 8 to 26 have been prepared in accordance with the provisions of the Companies Act of Namibia, 28 of 2004 (Namibian Companies Act) and comply with the International Accounting Standard, (IAS) 34 'Interim Financial Reporting'.

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 condensed consolidated interim financial statements have been reviewed 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 review were valid and appropriate. The independent auditor's review report is presented on page 7. The condensed consolidated interim financial statements, set out on pages 8 to 26, were authorised and approved for issue by the board of directors on 20 February 2018 and are signed on their behalf:

Johan Swanepoel
Chairman

Thinus Prinsloo
Managing director

INDEPENDENT AUDITOR'S REVIEW REPORT ON INTERIM FINANCIAL STATEMENTS

to the members of Capricorn Investment Group Limited

To the shareholders of Capricorn Investment Group Limited

We have reviewed the condensed consolidated interim financial statements of Capricorn Investment Group Limited in the accompanying interim report, which comprise the condensed consolidated statement of financial position as at 31 December 2017 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-months then ended, and selected explanatory notes.

Directors' responsibility for the interim financial statements

The directors are responsible for the preparation and presentation of these interim financial statements in accordance with the International Accounting Standard, (IAS) 34 'Interim Financial Reporting' 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 interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on these interim financial statements. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. ISRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements.

A review of interim financial statements in accordance with ISRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained.

The procedures in a review are substantially less than and differ in nature from those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of Capricorn Investment Group Limited for the six months ended 31 December 2017 are not prepared, in all material respects, in accordance with the International Accounting Standard, (IAS) 34 'Interim Financial Reporting' and the requirements of the Companies Act of Namibia.

PricewaterhouseCoopers

PricewaterhouseCoopers
Registered Accountants and Auditors
Chartered Accountants (Namibia)
Per: Nangula Uaandja
Partner
Windhoek
20 February 2018

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2017

	Notes	Six months ended December 2017 N$'000 Reviewed	Six months ended December 2016 N$'000 Reviewed	Year ended June 2017 N$'000 Audited
Interest and similar income		**2,108,766**	1,636,597	3,626,477
Interest and similar expenses		**(1,212,034)**	(886,718)	(1,976,980)
Net interest income		**896,732**	749,879	1,649,497
Impairment charges on loans and advances		**(39,462)**	(26,481)	(57,998)
Net interest income after loan impairment charges		**857,270**	723,398	1,591,499
Non-interest income		**588,078**	466,531	998,185
Operating income		**1,445,348**	1,189,929	2,589,684
Operating expenses		**(840,712)**	(582,732)	(1,395,005)
Operating profit		**604,636**	607,197	1,194,679
Share of joint arrangement's results after tax		**2,016**	303	1,094
Share of associates' results after tax		**51,385**	36,785	78,100
Profit before income tax		**658,037**	644,285	1,273,873
Income tax expense		**(171,265)**	(186,946)	(356,252)
Profit for the period/year		**486,772**	457,339	917,621
Other comprehensive income				
Items that may subsequently be reclassified to profit or loss				
Change in value of available-for-sale financial assets		**23,416**	(3,783)	15,383
Exchange differences on translation of foreign operations		**(27,288)**	–	(1,949)
Total comprehensive income for the period/year		**482,900**	453,556	931,055
Profit is attributable to:				
Equity holders of the group and company		**477,390**	457,339	909,429
Non-controlling interests		**9,382**	–	8,192
		486,772	457,339	917,621
Total comprehensive income is attributable to:				
Equity holders of the group and company		**477,129**	453,556	923,939
Non-controlling interests		**5,771**	–	7,116
		482,900	453,556	931,055
Basic earnings per ordinary share (cents)	14	**93.6**	91.8	180.4
Fully diluted earnings per ordinary share (cents)	14	**93.4**	91.6	180.0

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

	Notes	December 2017 N$'000 Reviewed	December 2016 N$'000 Reviewed	June 2017 N$'000 Audited
ASSETS				
Cash and balances with the central bank		**1,783,114**	1,369,359	1,543,070
Financial assets designated at fair value through profit or loss		**4,299,419**	2,605,012	3,968,635
Financial assets at amortised cost	10	**853,651**	–	299,687
Investment securities		**129,385**	130,215	149,381
Due from other banks		**1,979,921**	268,434	2,198,596
Loans and advances to customers		**34,094,895**	27,121,963	33,433,922
Other assets		**482,761**	103,383	450,265
Current tax asset		**69,419**	62,593	72,420
Investment in associates		**312,060**	268,309	245,782
Interest in joint arrangements		**8,208**	5,402	6,193
Intangible assets	11	**296,989**	228,483	291,680
Property, plant and equipment	12	**207,690**	157,555	232,808
Deferred tax asset		**20,048**	1,082	28,475
Total assets		**44,537,560**	32,321,790	42,920,914
LIABILITIES				
Due to other banks		**261,281**	213,161	317,914
Other borrowings	13	**1,388,386**	1,164,546	1,165,064
Debt securities in issue		**4,270,910**	2,601,406	4,105,577
Deposits		**32,750,037**	23,569,287	31,571,561
Other liabilities		**390,616**	216,982	535,044
Current tax liability		**1,973**	9,448	640
Deferred tax liability		**3,881**	6,711	4,008
Post-employment benefits		**10,556**	9,825	10,191
Total liabilities		**39,077,640**	27,791,366	37,709,999
EQUITY				
Share capital and premium		**683,508**	490,780	684,665
Non-distributable reserves		**249,556**	208,134	248,186
Distributable reserves		**4,368,800**	3,831,510	4,123,531
		5,301,864	4,530,424	5,056,382
Non-controlling interests in equity		**158,056**	–	154,533
Total shareholders' equity		**5,459,920**	4,530,424	5,210,915
Total equity and liabilities		**44,537,560**	32,321,790	42,920,914

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2017

		Non-distributable reserves		Distributable reserves						
	Share capital and premium N$'000	Insurance fund reserve N$'000	Credit risk reserve N$'000	SBCR* N$'000	Fair value reserve N$'000	General banking reserve N$'000	FCTR** N$'000	Retained earnings N$'000	Non-controlling interests N$'000	Total equity N$'000
For the six months ended 31 December 2016 (reviewed)										
Balance at 1 July 2016	512,045	27,773	185,261	13,290	129,782	2,764,277	–	641,611	–	4,274,039
Movement in treasury shares	(21,265)	–	–	–	–	–	–	–	–	(21,265)
Total comprehensive income for the period	–	–	–	–	(3,783)	–	–	457,339	–	453,556
Profit for the period	–	–	–	–	–	–	–	457,339	–	457,339
Other comprehensive income	–	–	–	–	(3,783)	–	–	–	–	(3,783)
Share-based payment charges	–	–	–	3,750	–	–	–	–	–	3,750
Profit on sale of treasury shares	–	–	–	–	–	–	–	171	–	171
Transfer between reserves	–	–	(4,900)	–	–	–	–	4,900	–	–
Dividends	–	–	–	–	–	–	–	(179,827)	–	(179,827)
Balance at 31 December 2016	490,780	27,773	180,361	17,040	125,999	2,764,277	–	924,194	–	4,530,424
For the six months ended 31 December 2017 (reviewed)										
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**
Movement in treasury shares	**(1,157)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,157)**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**23,416**	**–**	**(23,677)**	**477,390**	**5,771**	**482,900**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**477,390**	**9,382**	**486,772**
Other comprehensive income	**–**	**–**	**–**	**–**	**23,416**	**–**	**(23,677)**	**–**	**(3,611)**	**(3,872)**
Share-based payment charges	**–**	**–**	**–**	**4,500**	**–**	**–**	**–**	**–**	**–**	**4,500**
Reclassification to profit or loss	**–**	**–**	**–**	**–**	**(42,647)**	**–**	**–**	**–**	**–**	**(42,647)**
Profit on sale of treasury shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,289**	**–**	**1,289**
Transfer between reserves	**–**	**1,370**	**–**	**–**	**–**	**(1,370)**	**–**	**–**	**–**	**–**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(193,632)**	**(2,248)**	**(195,880)**
Balance at 31 December 2017	**683,508**	**51,906**	**197,650**	**20,794**	**125,934**	**3,353,239**	**(24,550)**	**893,383**	**158,056**	**5,459,920**

* Share-based compensation reserve (SBCR)

** Foreign currency translation reserve (FCTR)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (continued)

for the six months ended 31 December 2017

		Non-distributable reserves		Distributable reserves						
	Share capital and premium N$'000	Insurance fund reserve N$'000	Credit risk reserve N$'000	SBCR* N$'000	Fair value reserve N$'000	General banking reserve N$'000	FCTR** N$'000	Retained earnings N$'000	Non-controlling interests N$'000	Total equity N$'000
For the year ended 30 June 2017 (audited)										
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	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	–	–	–	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	–	–	–	–	–	–	–	(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

* Share-based compensation reserve (SBCR)

** Foreign currency translation reserve (FCTR)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

for the six months ended 31 December 2017

	Six months ended		Year ended
	December 2017 N$'000 Reviewed	December 2016 N$'000 Reviewed	June 2017 N$'000 Audited
Cash flows from operating activities			
Cash (utilised in)/generated from operations	**(47,252)**	(154,579)	1,306,894
Dividends received	**25,751**	32,370	101,902
Other interest received	**192**	167	408
Taxes paid	**(158,631)**	(172,372)	(384,458)
Net cash (utilised in)/generated from operating activities	**(179,940)**	(294,414)	1,024,746
Cash flows from investing activities			
Additions to property, plant and equipment	**(9,023)**	(20,744)	(63,052)
Proceeds on sale of property, plant and equipment	**59**	–	1,760
Additions to intangible assets	**(16,610)**	(43,506)	(71,630)
Proceeds on sale of subsidiary	**–**	9,887	9,887
Acquisition of associates/subsidiaries	**(34,479)**	–	1,062,658
Other	**765**	293	–
Net cash (utilised in)/generated from investing activities	**(59,288)**	(54,070)	939,623
Cash flows from financing activities			
Treasury shares acquired	**(19,509)**	–	(59,390)
Treasury shares sold	**19,641**	–	28,985
Proceeds from other borrowings	**309,650**	–	–
Other borrowings payments	**(144,922)**	(61,203)	(99,990)
Redemption of debt securities in issue	**(196,057)**	(71,264)	(473,766)
Debt securities coupon payments	**(179,880)**	(102,761)	(218,507)
Proceeds from the issue of debt securities	**355,000**	455,000	1,907,651
Dividends paid	**(195,880)**	(179,827)	(329,516)
Other	**–**	(21,094)	–
Net cash (utilised in)/generated from financing activities	**(51,957)**	18,851	755,467
Net (decrease)/increase in cash and cash equivalents	**(291,185)**	(329,633)	2,719,836
Effects of exchange rate on cash and cash equivalents	**(28,880)**	–	–
Cash and cash equivalents at the beginning of the period/year	**5,291,456**	2,571,620	2,571,620
Cash and cash equivalents at the end of the period/year	**4,971,391**	2,241,987	5,291,456

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 31 December 2017

1. General information

Capricorn Investment Group Ltd ('Capricorn Group' or 'the group') is a Namibian registered company that acts as an investment holding company and provides consulting and support services to the other group companies. Its main investments comprise 100% shareholdings in Bank Windhoek Ltd (BW), Namib Bou Ltd, Capricorn Asset Management (Pty) Ltd and Capricorn Unit Trust Management Company Ltd. The company has a 68.7% shareholding in Capricorn Investment Holdings (Botswana) Ltd, which in turn holds 100% of the share capital in Bank Gaborone Ltd (BG), a 97.9% shareholding in Capricorn Capital Holdings Zambia PLC, which owns 100% of Cavmont Bank Ltd (CB), a 29.5% shareholding in Sanlam Namibia Holdings (Pty) Ltd, a 28% shareholding in Santam Namibia Ltd and 33.3% in Nimbus Infrastructure Ltd.

These condensed consolidated interim financial statements were approved for issue on 20 February 2018 and have been reviewed, not audited.

2. Basis of presentation

The reviewed condensed consolidated interim financial statements of Capricorn Investment Group Ltd for the six months ended 31 December 2017, have been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), and presentation and disclosure requirements of the International Accounting Standard (IAS) 34: 'Interim Financial Reporting' as well as the Companies Act of Namibia. The condensed consolidated interim financial statements should be read in conjunction with the consolidated annual financial statements for the year ended 30 June 2017, which have been prepared in accordance with IFRS.

3. Accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for amendments listed in note 5. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

4. Critical accounting estimates and judgement

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated annual financial statements for the year ended 30 June 2017.

5. Standards and interpretations issued

5.1. Standards and interpretations issued affecting amounts reported and disclosures in the current financial period

There were no standards and interpretations issued affecting amounts reported and disclosures in the current financial period.

5.2. Standards and interpretations issued but not yet effective

Standards and interpretations issued but not yet effective that could have a material impact on the group are IFRS 9 'Financial Instruments', IFRS 16 'Leases' and IFRS 15 'Revenue from Contract Customers'.

6. Seasonality of operations

Capricorn Group does not experience any significant seasonality of business operations.

7. Financial risk management and financial instruments

7.1. Financial risk factors

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the group's annual financial statements as at 30 June 2017. There have been no significant changes in the risk management department or risk management policies since the year-end.

7.2. Liquidity risk

Senior debt to the value of N$355 million was issued during the period ended 31 December 2017 under the group's medium term note programme registered with the NSX and JSE.

7.3. Fair value estimation

The table on the following page analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Fair value hierarchy

IFRS specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter derivative contracts, traded loans and issued structured debt. The sources of input parameters like JIBAR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The group considers relevant and observable market prices in its valuations where possible. No transfers of financial instruments have been made between fair value hierarchy levels during the six months ended 31 December 2017. There were no changes in valuation techniques during the period.

7. Financial risk management and financial instruments (continued)

	Level 1 N$'000	Level 2 N$'000	Total N$'000
Assets and liabilities measured at fair value			
As at 31 December 2017 (reviewed)			
Financial assets designated at fair value through profit or loss			
Debt securities	**822,759**	**3,476,660**	**4,299,419**
Available-for-sale financial assets			
Investment securities – listed	**129,385**	**–**	**129,385**
	952,144	**3,476,660**	**4,428,804**
Financial liabilities at fair value through profit or loss			
Derivative financial instruments (included in other liabilities)	**–**	**9,347**	**9,347**
As at 31 December 2016 (reviewed)			
Financial assets designated at fair value through profit or loss			
Debt securities	285,929	2,319,083	2,605,012
Available-for-sale financial assets			
Investment securities – listed	130,215	–	130,215
	416,144	2,319,083	2,735,227
Financial liabilities at fair value through profit or loss			
Derivative financial instruments (included in other liabilities)	–	5,323	5,323
As at 30 June 2017 (audited)			
Financial assets designated at fair value through profit or loss			
Debt securities	1,116,990	2,851,645	3,968,635
Available-for-sale financial assets			
Investment securities – listed	149,381	–	149,381
	1,266,371	2,851,645	4,118,016
Financial liabilities at fair value through profit or loss			
Derivative financial instruments (included in other liabilities)	–	8,622	8,622

7. Financial risk management and financial instruments (continued)

Details of level 2 fair value instruments:			**Valuation inputs – ranges**		
Financial assets designated at fair value through profit or loss	**Valuation technique**	**Type of input**	**31 Dec 2017 Reviewed**	**31 Dec 2016 Reviewed**	**30 June 2017 Audited**
Treasury bills	*	Note 1a	**6.1% – 8.6%**	6.7% – 9.6%	6.4% – 8.5%
Government stock	*	Note 1a	**7.1% – 10.6%**	8.6% – 10.5%	8.5% – 11.0%
Unit trust funds	**	Note 2	**Note 2**	Note 2	Note 2
Other debt securities					
– Corporate bonds	*	Note 1a	**9.4%**	10.3%	10.1%
Financial assets at fair value through profit or loss					
Derivative financial instruments	*	Note 1a	**7.1% – 7.2%**	7.2% – 7.8%	7.2% – 8.5%
Financial assets at fair value through profit or loss					
Derivative financial instruments	*	Note 1a	**7.1% – 7.2%**	7.2% – 7.8%	7.2% – 8.5%
Financial assets at amortised cost					
Treasury bills		Note 1a	**BW: 6.1% – 8.6%**	–	BW: 6.4% – 8.5%
		Note 1a	**CB: 9.8% – 16.5%**	–	CB: 11.9% – 16.5%
		Note 1a	**BG: 1.2% – 5.4%**	–	–
Government stock		Note 1a	**BW: 7.1% – 11.0%**	–	BW: 8.5% – 11.0%
		Note 1a	**CB: 16.5% – 20.0%**	–	CB: 19.5% - 23.0%

* Income approach: Present value of expected future cash flows.

** Market approach: The fair value is determined with reference to the daily published market prices.

Note 1: a) Yield curves and b) exchange rates observable at commonly quoted intervals.

Note 2: Valuations are performed per fund based on the net asset value of the underlying assets.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

for the six months ended 31 December 2017

7. Financial risk management and financial instruments (continued)

The following table represents the fair value of financial instruments carried at amortised cost on the statement of financial position:

	December 2017		**December 2016**		**June 2017**	
N$'000	**Carrying value Reviewed**	**Fair value Reviewed**	**Carrying value Reviewed**	**Fair value Reviewed**	**Carrying value Audited**	**Fair value Audited**
Financial assets						
Cash and balances with the central bank	**1,783,114**	**1,783,114**	1,369,359	1,369,359	1,543,070	1,543,070
Financial assets at amortised cost	**853,651**	**856,965**	–	–	299,687	322,285
Due from other banks	**1,979,921**	**1,979,921**	268,434	268,434	2,198,596	2,198,596
Loans and advances to customers	**34,094,895**	**34,366,463**	27,121,963	27,601,967	33,433,922	33,902,486
Other assets	**482,761**	**482,761**	103,383	103,383	450,265	450,265
Financial liabilities						
Due to other banks	**261,281**	**261,281**	213,161	213,161	317,914	317,914
Other borrowings	**1,388,386**	**1,194,842**	1,164,546	1,227,529	1,165,064	1,165,739
Debt securities in issue	**4,270,910**	**4,267,651**	2,601,406	2,572,972	4,105,577	4,033,129
Deposits	**32,750,037**	**32,750,478**	23,569,287	23,567,765	31,571,561	31,572,714
Other liabilities	**390,616**	**390,616**	216,982	216,982	535,044	535,044

8. Capital management

The table on the next page summarises the composition of regulatory capital and the ratios of the group for the year ended 30 June 2017 and the six months ended 31 December 2017 and 31 December 2016. During these three periods, the individual entities within the group complied with all of the externally imposed capital requirements to which they are subjected.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

for the six months ended 31 December 2017

8. Capital management (continued)

	December 2017 N$'000 Reviewed	December 2016 N$'000 Reviewed	June 2017 N$'000 Audited
Tier 1 capital			
Share capital and premium	**727,264**	532,206	727,264
General banking reserves	**3,354,610**	2,764,277	3,354,610
Retained earnings	**842,863**	771,552	820,133
Minority interests	**154,533**	–	154,533
Subtotal	**5,079,270**	4,068,035	5,056,540
Deduct: 50% investments in group entities			
Goodwill	**(85,599)**	(85,599)	(85,599)
50% investments in deconsolidated financial subsidiaries, significant minority and majority insurance entities and significant commercial entities	**(182,393)**	(161,573)	(162,749)
Net total Tier 1 capital	**4,811,278**	3,820,863	4,808,192
Tier 2 capital			
Subordinated debt	**301,833**	212,717	280,521
Five-year callable bonds	**276,689**	187,570	255,379
Preference shares	**25,144**	25,147	25,142
Current unaudited profits (including dividends paid)	**271,893**	285,223	–
Portfolio impairment	**348,913**	303,385	351,907
Minority interests	**3,523**	–	–
Subtotal	**926,162**	801,325	632,428
Deduct: 50% investments in group entities			
50% investments in deconsolidated financial subsidiaries, significant minority and majority insurance entities and significant commercial entities	**(138,636)**	(120,150)	(120,150)
Net total Tier 2 capital	**787,526**	681,175	512,278
Total regulatory capital	**5,598,804**	4,502,038	5,320,470
Risk-weighted assets:			
Operational risk	**4,623,865**	2,795,826	3,937,860
Credit risk	**32,309,129**	24,440,844	31,763,261
Market risk	**501,566**	255,057	355,991
Total risk-weighted assets	**37,434,560**	27,491,727	36,057,112
Capital adequacy ratios:			
Leverage capital ratio	**11.3%**	12.3%	11.7%
Tier 1 risk-based capital ratio	**12.9%**	13.9%	13.3%
Total risk-based capital ratio	**15.0%**	16.4%	14.8%

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

for the six months ended 31 December 2017

9. Income taxes

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year to 31 December 2017 is 28.3% (30 June 2017: 29.8% and 31 December 2016: 30.8%).

10. Financial assets at amortised cost

The increase in financial assets at amortised cost is due to the acquisition of government stock to the value of N$608.3 million.

11. Intangible assets

The increase in net book value in intangible assets during the period under review is mainly due to the capitalisation of IT costs of N$16.6 million, which also represents the total additions for the period.

12. Property, plant and equipment

Total additions to property, plant and equipment during the period ended 31 December 2017 amounted to N$9 million.

13. Other borrowings

	December 2017 N$'000 Reviewed	December 2016 N$'000 Reviewed	June 2017 N$'000 Audited
Opening balance	**1,165,064**	1,164,051	1,164,051
Additions	**309,650**	–	–
Repayments	**(84,641)**	–	–
Accrued interest	**63,111**	61,698	101,003
Coupon payments	**(60,281)**	(61,203)	(99,990)
Foreign exchange gain	**(4,517)**	–	–
Closing balance	**1,388,386**	1,164,546	1,165,064

Other borrowings consist of long-term funding raised from IFC (International Finance Corporation) and DEG (Deutsche Investitions- und Entwicklungsgesellschaft) respectively. The IFC loan is repayable semi-annually over a 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$83.6 million have been made in December 2017 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%.

Also included in other borrowings is N$219 million long-term funding raised from AFD (Agence Française de Développement) 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%.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

for the six months ended 31 December 2017

14. Earnings and headline earnings per ordinary share

	December 2017 Reviewed		
	Gross N$'000	**Taxation N$'000**	**Net N$'000**
Earnings			
Profit for the period attributable to the equity holders of the parent entity			**477,390**
Headline adjustments	**(42,399)**	**(3)**	**(42,402)**
Reclassification gain on disposal of available-for-sale financial asset	**(42,647)**	**–**	**(42,647)**
Other	**248**	**(3)**	**245**
Headline earnings			**434,988**

	December 2016 Reviewed		
	Gross N$'000	**Taxation N$'000**	**Net N$'000**
Earnings			
Profit for the period attributable to the equity holders of the parent entity			457,339
Headline adjustments	3,309	88	3,397
Re-measurement included in equity-accounted earnings	275	–	275
Loss on sale of subsidiary	3,309	–	3,309
Profit on sale of property, plant and equipment	(275)	88	(187)
Headline earnings			460,736

	June 2017 Audited		
	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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

for the six months ended 31 December 2017

14. Earnings and headline earnings per ordinary share (continued)

	December 2017 Reviewed	**December 2016 Reviewed**	**June 2017 Audited**
Number of ordinary shares in issue at period/year-end ('000)	**516,878**	505,280	516,878
Less: Treasury shares	**(6,925)**	(6,934)	(6,939)
Adjusted for shares issued during the year ('000)	**–**	–	(5,799)
Weighted average number of ordinary shares in issue during the period/year ('000)	**509,953**	498,346	504,140
Diluted weighted average number of ordinary shares in issue during the period/year ('000)	**511,151**	499,504	505,338
Earnings per ordinary share (cents)			
Basic	**93.6**	91.8	180.4
Fully diluted	**93.4**	91.6	180.0
Headline earnings per ordinary share (cents)			
Basic	**85.3**	92.5	181.6
Fully diluted	**85.1**	92.2	181.2

15. Net asset value per ordinary share

	December 2017 N$'000 Reviewed	**December 2016 N$'000 Reviewed**	**June 2017 N$'000 Audited**
Net assets (excluding non-controlling interest) (N$'000)	**5,301,864**	4,530,424	5,056,382
Number of ordinary shares in issue at period/year-end ('000)	**509,953**	498,346	504,140
Net asset value per ordinary share (cents)	**1,040**	909	1,003

16. Dividends per share

Capricorn Investment Group Limited did not declare or propose interim dividends during the six-month period ended 31 December 2017 (30 June 2017: N$298.1 million and 31 December 2016: NIL). Refer to note 21 for dividends declared after the reporting period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

for the six months ended 31 December 2017

17. Contingent assets, liabilities and commitments

	December 2017 N$'000 Reviewed	December 2016 N$'000 Reviewed	June 2017 N$'000 Audited
17.1 Capital commitments			
Contracted for but not yet incurred	**85,489**	5,700	88,107
Authorised but not contracted for	**266,435**	175,596	301,213
17.2 Letters of credit	**92,948**	265,511	100,373
17.3 Liabilities under guarantees	**1,100,437**	1,585,177	1,495,326
17.4 Loan commitments	**2,060,566**	2,089,502	1,763,653

17.5 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. Provisions have been raised for these to the extent that the outcome is known.

18. Related parties

The group did not enter into material new related party transactions and balances for the six months ended 31 December 2017.

19. Segment information

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

for the six months ended 31 December 2017

19. Segment information (continued)

	December 2017 N$'000 Reviewed	December 2016 N$'000 Reviewed	June 2017 N$'000 Audited
Operating income			
Banking – Namibia	**1,180,176**	1,121,878	2,238,958
Banking – Botswana	**132,184**	–	134,334
Other	**132,988**	68,051	216,392
Total	**1,445,348**	1,189,929	2,589,684
Profit after tax for the period/year			
Banking – Namibia	**413,540**	398,632	775,433
Banking – Botswana	**30,214**	–	37,589
Other	**43,018**	58,707	104,599
Total	**486,772**	457,339	917,621
Total assets			
Banking – Namibia	**36,194,036**	31,908,950	34,371,038
Banking – Botswana	**5,822,065**	–	6,016,178
Other	**2,521,459**	412,840	2,533,698
Total	**44,537,560**	32,321,790	42,920,914

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

for the six months ended 31 December 2017

20. Acquisition of associate

On 29 September 2017, Capricorn Group acquired a 33.33% shareholding in Nimbus Infrastructure Ltd for an acquisition price of N$34.5 million. Nimbus is listed on the NSX and was established to invest in Infrastructure and/or Information and Communication Technology companies.

21. Events subsequent to period-end

Dividends declared

On 20 February 2018, an interim dividend of 30 cents per ordinary share was declared for the period ended 31 December 2017, payable on 20 March 2018. The last day to trade shares on a cum dividend basis is on 2 March 2018, the first day to trade ex dividend is 5 March 2018 and the record date is 9 March 2018. The interim dividend amounting to N$155.1 million has not been recognised as a liability in the condensed consolidated interim financial statements. It will be recognised in the statement of changes in equity for the year ended 30 June 2018.

New investments

Capricorn Investment Holdings (Botswana) Ltd (CIHB)

The group agreed to acquire a further 15% of the shares in CIHB from Capricorn Investment Holdings Ltd (CIH). The transaction has been approved by the board and is subject to the finalisation of the contractual requirements and regulatory approval.

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