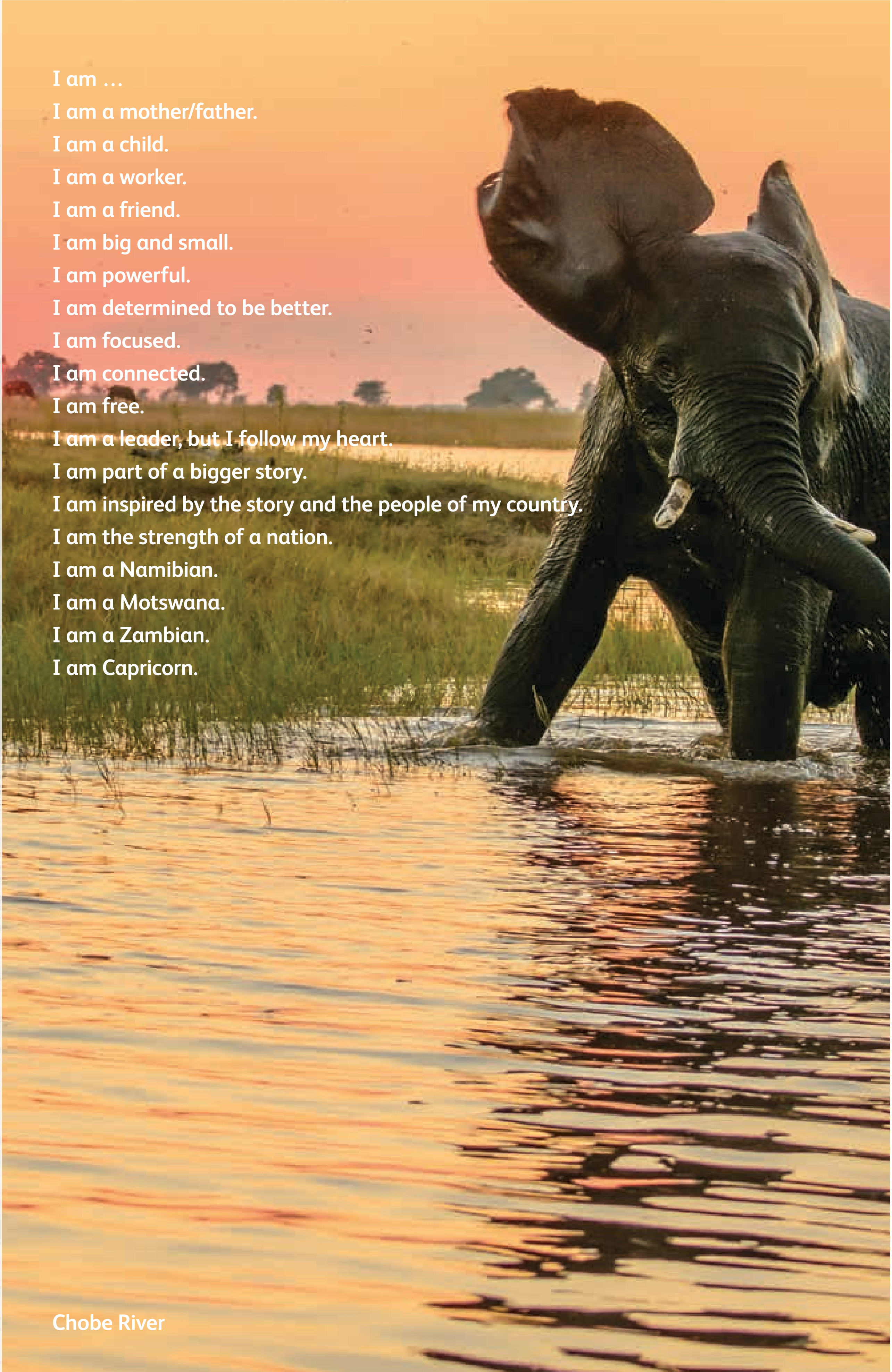
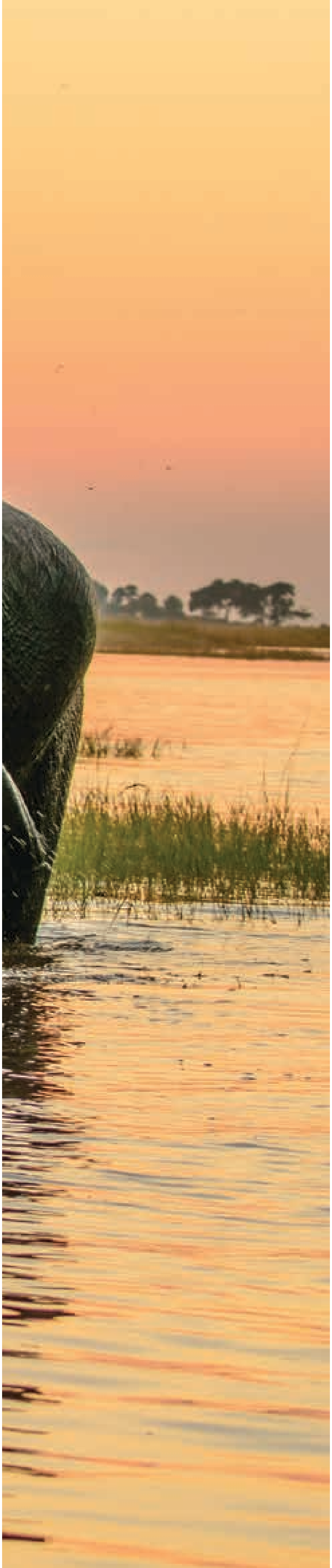
2019 INTEGRATED ANNUAL REPORT

Capricorn Group



I am …
I am a mother/father.
I am a child.
I am a worker.
I am a friend.
I am big and small.
I am powerful.
I am determined to be better.
I am focused.
I am connected.
I am free.
I am a leader, but I follow my heart.
I am part of a bigger story.
I am inspired by the story and the people of my country.
I am the strength of a nation.
I am a Namibian.
I am a Motswana.
I am a Zambian.
I am Capricorn.

Chobe River



Contents

This integrated annual report is for the financial year ended 30 June 2019 and was compiled with input from the executive leadership team, reviewed by the board audit, risk and compliance committee (BARC) and the board sustainability and ethics committee (BSEC), and approved by the board on 11 September 2019. It was prepared according to a set of regulatory and voluntary guidelines, set out on page 128. Please note the forward-looking statement on page 128 and consult the group structure diagram on page 15 for detail on entities covered. We welcome feedback and provide our contact details on page 128.

THE CAPRICORN WAY AND VISION

OUR VISION AND PURPOSE

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.

We describe instances where we acted as connectors on page 29.

OUR STAKEHOLDERS

We realise our vision by making strategic choices and by working according to The Capricorn Way.

The Capricorn Way directs us towards positive change and is underpinned by three beliefs:

- We believe that **Purpose Inspires Leadership**
- We believe that **Diversity Ignites Quantum Leaps**
- We believe that **Being Connected Helps Us Grow**

To reflect The Capricorn Way in our everyday lives, we agreed on nine behaviours in the workplace:

Wisdom: choose when to speak and act

Responsiveness: be concise when you speak and silent when you listen

Motivation: be an example of what is possible

Resilience: navigate the ups and downs with perseverance

Curiosity: ask in order to learn, improve and discover

Initiative: don't wait to be told what to do

Enjoyment: stop, be aware of the good things that are happening, big and small

Impact: busy does not equal great results

Engagement: be fully present when you are with others

We follow an inclusive process to identify, assess and track those matters that are material for us to create value Read more on page 52.

"Our brand, culture and strategy connect us so that we can create value through more connections – all for positive change."

We describe our strategic landscape and the progress made with strategy implementation on page 42.

OUR FOUR STRATEGIC CHOICES (2018–2020)

- Focus on building our foundation in Namibia, Zambia and Botswana to get to a position of market leadership.
- Win in Namibia, Zambia and Botswana through operational excellence (lean, efficient, fast) and effective execution.
- Compete in Namibia, Botswana and Zambia through strategic relationships and partnerships in insurtech, fintech, mobile and telco, and education.
- In considering other African countries beyond 2020, target technological/borderless/cyber opportunities above bricks and mortar entry. Evaluate opportunities, whether cyber or bricks and mortar, on a case-by-case basis.

OUR KEY COMPETENCIES

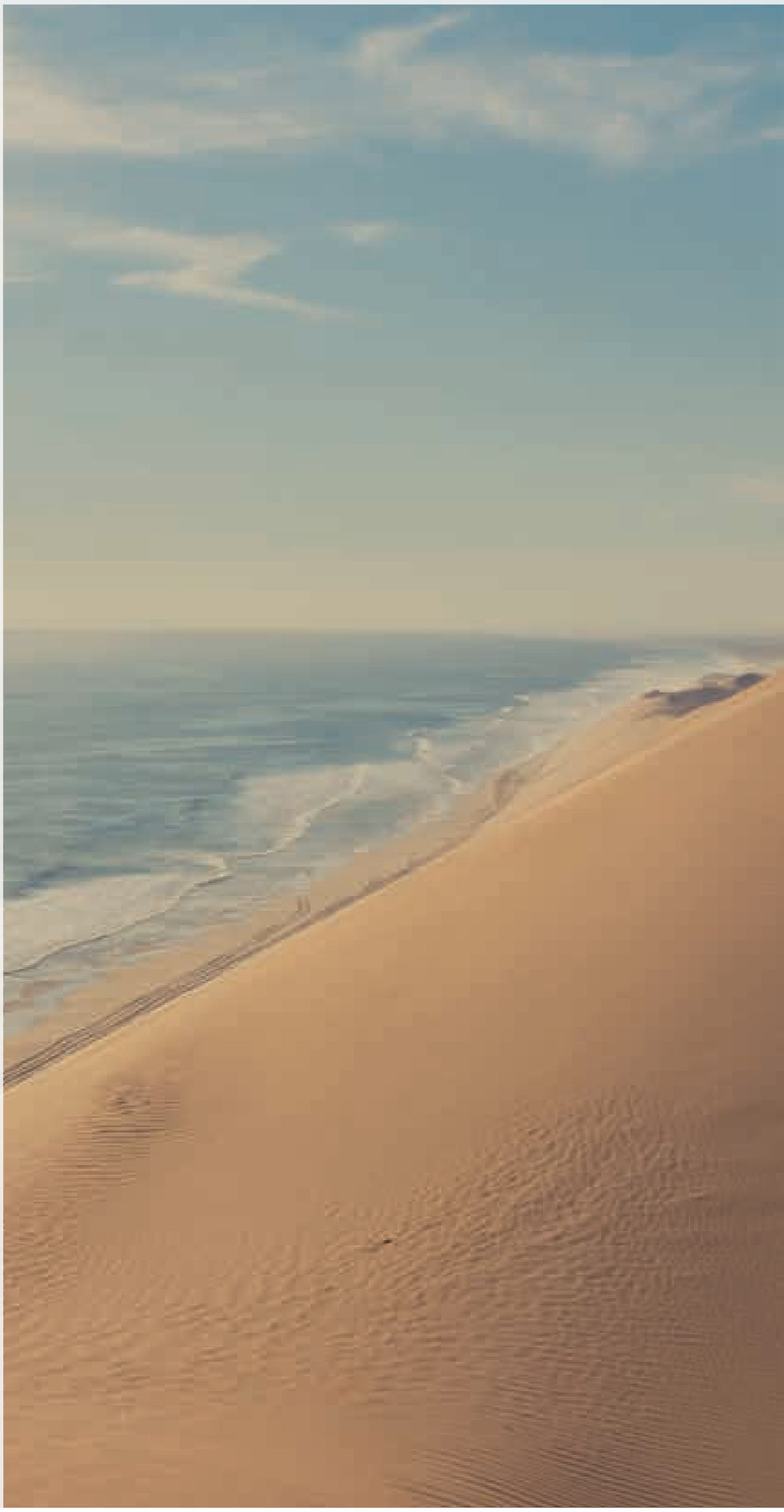
1. Understanding the Capricorn Group and competitor environment
2. Deep understanding of client needs
3. Relentless drive to improve performance
4. In-depth business insight
5. Unlock potential in self and others
6. Excellence in execution

- Ethical leadership, management and business
- Credit risk management and mitigating losses due to bad debt
- Financial and cybercrime/ cybersecurity
- Meeting customer needs and expectations
- Demand for specialist skills driving focused development, training and diversity
- Responding to a changing regulatory and operating context
- Fintech, insurtech and evolving digital assets
- Enhancing and optimising management and operational systems

I AM NAMIBIAN

Namibia, the land of beauty and contrast – the place where the desert meets the sea. Namibians understand the value of freedom and unity, always striving for a better future together. With pride that is innate, we are dedicated to creating opportunities for all our people, helping to build a sustainable future for everyone.

I am Capricorn



OUR GROUP IN 2019

FIVE-YEAR FINANCIAL OVERVIEW

Statement of comprehensive income (N$'000)	2015	2016	2017	2018	2019	Five-year CAGR*
Total income	2,079,559	2,411,946	2,647,682	3,044,065	**3,492,357**	**15.0%**
Operating profit	979,023	1,171,014	1,194,679	1,168,117	**1,325,772**	**10.8%**
Profit for the year after tax	7533,002	905,048	917,621	934,435	**1,015,299**	**10.2%**
Total comprehensive income for the year	781,488	938,513	931,055	986,240	**1,023,901**	**9.9%**
Headline earnings per share (cents)	151	181	182	158	**182**	**8.4%**
Dividends per share (cents)	53	66	68	60	**66**	**8.4%**
Total assets	28,608,842	32,333,653	42,920,914	47,433,686	**50,677,955**	**15.8%**
Total loans and advances to customers	23,621,871	26,598,023	33,433,922	36,234,418	**38,0495,83**	**13.5%**
Total deposits	21,993,9998	23,724,128	31,571,561	33,948,091	**36,984,725**	**14.5%**
Net asset value per share (cents)	782	856	1,003	1,099	**1,136**	**13.0%**
Performance indicators (%)						
Return on average equity	22.4	22.9	19.5	17.3	**16.3**	
Return on average assets	2.8	3.0	2.4	2.1	**2.1**	
Impairment charges as a % of average gross loans and advances	0.26	0.24	0.19	0.23	**0.30**	
Non-interest income as % of operating income	40.2	40.6	38.5	41.3	**40.2**	
Cost-to-income ratio	51.6	50.2	53.9	60.6	**60.8**	
Closing share price (cents) at 30 June	1,556	1,724	1,809	1,723	**1,600**	
Price-to-book ratio at closing price per share	2.1	2.0	1.8	1.6	**1.4**	
Price-to-earnings ratio at closing price per share	10.3	9.5	10.0	9.5	**8.8**	
Capital adequacy (%)						
Total risk-based capital ratio	15.8	15.8	16.8	15.4	**14.9**	

* *Compound annual growth rate*

GROUP CHAIRMAN'S MESSAGE

Capricorn Group performed well in difficult circumstances characterised by the new reality of low or no economic growth, extreme drought, relentless pressure on consumers, ever-expanding regulatory requirements and fierce competition. We elaborate more on our business landscape and the economies in the region from page 42 in section 6 of this integrated report.

I am grateful that we can report positive results notwithstanding the challenging economic and business environment. Group operating profit grew by 26.0% year on year, and group profit after tax reached a new milestone to exceed the N$1 billion mark. Shareholders are rewarded with a 14.9% growth in headline earnings per share and a final dividend of 36 cents per share, 20% more than the 2018 final dividend. I want to thank and congratulate our Capricorn citizens on a commendable performance and express my heartfelt appreciation for their resilience, dedication and hard work to deliver these results.

We remain committed to our vision and continue to grow our network of people and channels that enable opportunities to be created, financed, transacted and secured wherever we operate.

As a group with deep roots in Namibia, our prospects are strongly intertwined with those of our economy, people and environment. Despite deeply concerning realities, we believe we have what it will take to see us through the challenges ahead. We also believe that the cycle will start turning in the medium term and until then our country and group will rely and build on our collective resilience.

We are in the fortunate position to have a strong capital position. This is supplemented by the backing of our two shareholders of reference, Capricorn Investment Holdings and the Government Institutions Pension Fund (GIPF). The group has built up a considerable liquid asset buffer and have put in place appropriate contingency funding facilities as important measures to mitigate liquidity risk and secure access to funding.

Reflecting on the 2019 financial year, a few aspects stand out:

- **We continued to improve our customer value proposition**. Given a contracting trading environment, the only way to grow our share of the market is by making it easier for our clients to do business with us. We are improving our ability to predict customer needs, to anticipate their behaviour and to use our strong personal relationships to enhance their experiences. The performance of Bank Windhoek, Capricorn Asset Management and Bank Gaborone is a positive indicator of the success of our customer strategy.
- **Managing the upward trajectory in non-performing loans remained a priority**. Increasing non-performing loans has become an industry phenomenon in recent times. Believing that "prevention is better than cure", we continued to refine our tools and interventions to proactively manage credit risk and to

JOHAN SWANEPOEL

Group chairman

support our customers to continue meeting their financial obligations. The learnings from the IFRS 9 implementation also provided us with more sophisticated modelling tools and improved abilities to predict and early identify accounts with increased credit risk. Where accounts do become non-performing, we focus on rehabilitation of these accounts and ultimately on effective and efficient recovery processes.

- **We have made significant changes to our business model in Zambia,** away from an elaborate network of small and unsustainable rural branches to serving more established small and medium-sized enterprises (SMEs). Without minimum scale for Cavmont Bank in any segment, we had to make difficult decisions to ensure a turnaround towards profitability. These interventions take time and require extensive interaction with regulators but are starting to deliver improvements.
- **Our investment in Entrepo exceeded expectation**. The Entrepo group of companies became part of our group at the beginning of this financial year. This growing, well managed business with highly efficient and centralised processes has been very successful, as it meets a growing need for unsecured personal loans and associated long-term insurance. We are working with the Entrepo team to find innovative solutions that will address wider community needs, such as financial literacy and financial wellness.
- **Our employees are becoming more engaged** and more appreciative about the ways we invest in them. The Capricorn Way has been effective in bringing people together from all parts of our business to create a shared vision and commitment to our future as Connectors of Positive Change. The focus on middle-management development was one of our key investments in operational excellence and succession planning over the longer term.
- **We adopted the King IV™ corporate governance framework*** and transitioned from the Namcode during the year. We welcome the King IV focus on the outcomes of corporate governance as opposed to a compliance-driven inputs approach. Our group's boards of directors embrace the core King IV™ principle of ethical and effective leadership at the top. In the discussions of the Capricorn Group's material matters, ethics emerged as our group's most important material matter. We have done extensive work on ethical risk management and reviewed and improved our ethics framework and policies. We realise that ethical behaviour is not a given and that we need to intervene and support our people to act with common good rather than self-interest in mind.
- **We revisited our approach to corporate social responsibility (CSR)**, and following thorough research and much deliberation, we decided to establish the Capricorn Foundation to coordinate and provide direction for the group's CSR initiatives. We want to have fewer but more impactful projects that will help us to truly live up to our brand promise and vision. This will also ensure that we align our efforts more closely to our business model and competencies, away from ad hoc donations and charitable giving.
- **A number of initiatives were taken to further build our brand** and to align the brand identities of all group entities to the Capricorn Group brand identity. We conducted extensive brand research in all our territories, testing the market about potential rebranding of our retail banks and assessing current perceptions and associations with the mother brand and subsidiary brands. We launched the "I am … Capricorn" brand campaign and refreshed our visual language. Our brand is building on existing local pride and the sense of being part of a group that is well established, successful and growing.

As I alluded to before, I do not expect meaningful improvement in economic and market conditions in the region where we operate in the next financial year. We do hope and pray for good rainfall to break the severe drought and we trust that the ongoing structural reforms, initiatives to promote foreign direct investment, and collaboration between public and private sector will see the revival of regional economies. The Economic Growth Summit for Namibia held at the end of July 2019 brought together like-minded Namibians who had profound conversations to solve a national problem. The constructive discussions and debates underlined the fact that now, more than ever, all Namibians should work together towards a shared goal and vision to create a better future for us all. While these external factors play out, our group will continue to focus on and apply our energy, abilities and effort to those factors within our control, to identify and pursue opportunities and to support initiatives aimed at addressing national concerns.

We have an experienced, diverse and committed board that is confident about the future of the group. I sincerely thank them for their leadership, wise counsel, time and dedication and for always being available to support when needed. I encourage them to continue asking difficult questions, probing our assumptions and prompting a stakeholder-inclusive agenda.

I thank our customers, who remain the main reason for our being, for their continued support, our shareholders for their trust and all our other stakeholders for their continued vested interest in our shared success.

Johan Swanepoel
Group chairman

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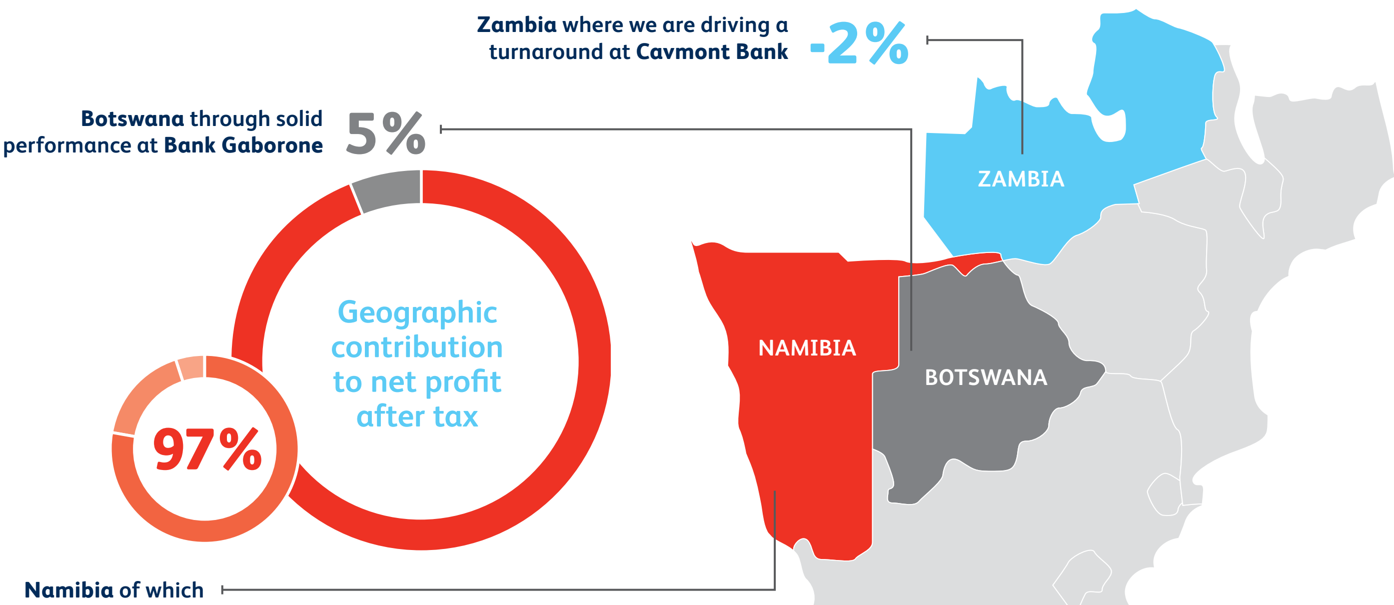
2019 AT A GLANCE

OUR PROFILE

Capricorn Group has three main banking subsidiaries in Namibia, Botswana and Zambia. Our main interests are in financial services. The group also recently invested in a telecommunications and technology investment company to position itself for the future convergence between telecommunications, data and financial services. Our customers range from high-net-worth individuals to corporates, small businesses and government employees in all territories. Our value proposition is built around customers rather than products or channels. We apply technology in transactional banking services, products and digital functionality to address future customer needs.

BUSINESS ACTIVITIES

- Retail banking
- Corporate transactions
- Corporate and business banking
- Property development
- Wealth management and private banking
- Forex and trade finance
- Lending
- Corporate finance
- Investment and asset management
- Capital markets
- Bancassurance
- Specialised finance
- Specialist asset finance
- Term lending



69% is contributed by strong performance from **Bank Windhoek**

15% is contributed by **Entrepo**

4% is contributed by **Capricorn Asset Management** (combined with Capricorn Unit Trust Management Company)

OUR PERFORMANCE

By making connections for positive change, we were able to show positive comparisons on all key indicators. Our results were bolstered by the first-time contribution from Entrepo.

Detailed commentary on our performance is available in the leadership reports from page 24.

BOARD OF DIRECTORS

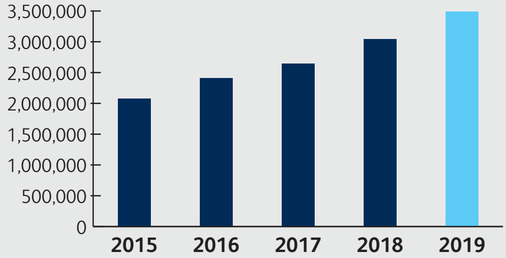
Our board is responsible for establishing effective leadership, ethical practices and the appropriate application of governance practices. The board ensures that Capricorn Group remains a sustainable, well-performing and legitimate business.

- Group board sustainability and ethics committee
- Group board human resources committee
- Group board nominations committee
- Group board remuneration committee
- Board procurement committee
- Group board investment committee
- Group board IT committee
- Board audit, risk and compliance committee

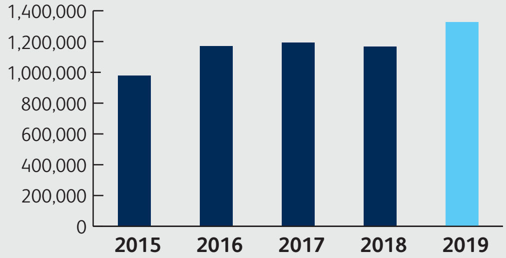
Read about governance, risk management and remuneration from page 69.

FIVE-YEAR OVERVIEW

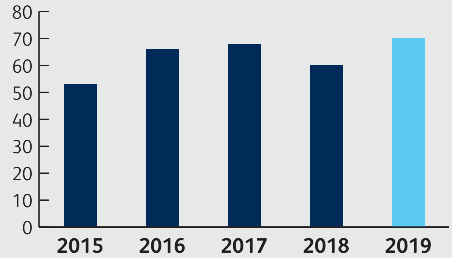
Total income (N$'000)



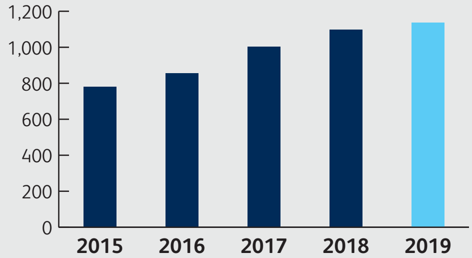
Operating profit (N$'000)



Dividend per share (cents)



Net asset value per share (cents)



Operating profit (excludes exceptional items in 2018)
▲ 26.0%
to N$1,326m
(2018: N$1,052m)

Headline earnings per share
▲ 14.9%
to 181.5 cents
(2018: 157.9 cents)

Profit before tax
▲ 11.9%
to N$1,402m
(2018: N$1,253m)

Dividend per share
66 cps
(2018: 60 cps)

Return on average equity
16.3%
(2018: 17.3%)

Capital adequacy
14.9%
(2018: 15.3%)

INVESTMENT CASE

Why invest in Capricorn Group?

As the leading Namibian-owned financial services group listed on the Namibian Stock Exchange (NSX), Capricorn Group is uniquely positioned to take advantage of future growth opportunities in the southern African region and to invest in businesses that complement our current portfolio.

Our regional advantage

With operations in Namibia, Botswana, Zambia and South Africa, Capricorn Group has a regionally diversified revenue stream that provides attractive and sustainable returns for shareholders. The group's diversified regional presence reduces concentration risk and provides a pool of regional skills and expertise to share.

Our diversified portfolio advantage

Capricorn Group has a steady record of new product and service launches, and continues to explore opportunities for growth in new sectors beyond our interests in banking, asset management, insurance and finance. In 2018 the group invested 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.

The group delivered operating profit growth of 26% in 2019, and a compound annual dividend growth rate of 8.4% over the past five years.

Our key focus remains the customer and the needs of the customer. Therefore, we are investing in digital offerings and channels that will empower our customers without losing the personal touch and customer intimacy we are known for. We anticipate the rise of smaller, value-adding entities that are digitally enabled and technology driven, with quick and fast business processes to satisfy client needs. By applying an Agile methodology to our platform strategies, we ensure that the group is well positioned for this future. We continue to scan the environment to stay abreast of the latest technology and business models to seize leapfrog opportunities towards augmenting our existing business and help transform it digitally.

A combination of strengths

Our 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 54 branches and agencies, 130 automated teller machines (ATMs) and 248 Cash Express ATMs in Namibia.

Bank Windhoek was recognised internationally when it received the Green Bonds Pioneer Award from Climate Bonds this year. It was the first commercial bank in southern Africa to issue a green bond.

Notwithstanding the challenging environment, Bank Windhoek delivered excellent results during the year under review with a 10.6% growth in operating income excluding exceptional items, and contributing 69% to the group's profits.

The Capricorn Unit Trust Management Company (CUTM), administered by Capricorn Asset Management (CAM), has been the market leader in Namibia since 2004 in terms of assets under management in the unit trust sphere. CUTM's latest market share is approximately 31% with 13 unit trusts covering all major asset classes.

Bank Gaborone is on a growth trajectory in Botswana with a proven capability to regularly launch new products and services leading to significant new customer sales.

Entrepo, which has an attractive share of the government employee market, is expanding by using a distinct and highly competitive capability to approve and disburse loans with speed and effectiveness, resulting in high levels of customer satisfaction.

Capricorn Group is widely recognised for our lasting contributions to communities through social responsibility initiatives such as the Bank Windhoek Cancer Apple project. This initiative was selected by the 2018 World Cancer Congress as one of their global innovative projects of hope.

Stability and reliability

Capricorn Group's two 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$117 billion, and Capricorn Investment Holdings (CIH), the founding holding company of Bank Windhoek, established in 1982, with a net asset value of N$5.6 billion as at 30 June 2019.

Capricorn Group has a credit rating of AA and A1+ in 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. This is further supported by a strong governance culture, entrepreneurial spirit and commitment to transparency. We have demonstrated consistent delivery on our AsOne2020 strategy since 2017.

A shared value approach

Since listing on the NSX six years ago, Capricorn Group has created significant value for shareholders, employees, government and strategic partners. The Capricorn Group share price has increased from its public offer price of N$8.75 at listing in June 2013 to N$16.00 on 30 June 2019, thereby achieving a compound annual growth rate of 10.6% – great value given economic challenges over this period.

Value created includes delivering N$24,922,380.60 of dividends to empowerment beneficiaries through Nam-mic Financial Services Holdings (NFSH) since 2013.

The group distributed 10.4% of direct economic value generated in 2019 – at a total value of N$624.8 million – to government in the form of taxes, levies and duties.

An ethical culture

Capricorn Group has a shared culture defined by The Capricorn Way. Ethical decision-making is demonstrated by the board and entrenched through our board evaluation and performance management process. The group has a zero tolerance towards non-compliance with any regulations or legislation in the jurisdictions in which it operates.

We believe that through our vision of being the most trusted and inspiring Connector of Positive Change through a highly relevant, convenient and responsive omni-channel network, we will be a catalyst of sustainable opportunities for all our stakeholders.

"Capricorn is locally run and managed and has undertaken a number of transactions in recent months giving it exposure to lending for strong short-term (cash) earnings growth, as well as ICT – a longer term strategic sector providing complementary services. Moreover, they have diversified into other countries on the continent with Cavmont Bank and Bank Gaborone, thus providing some revenue stream diversification. As far as locally listed companies go, Capricorn Group is one of, if not the, most dynamic, and is thus better positioned to weather the economic storm than most if not all of her peers." – Cirrus Capital, Namibia

"Capricorn Group has, in our view, the best treasury team in Namibia with a strong track record of managing liquidity and funding through challenging times. Capricorn Group also has, in our view, one of the most stringent credit processes of all the local banks, thus reasonably well placed for both challenging economic conditions and IFRS 9." – Cirrus Capital, Namibia

"We believe CGP has a sustainable competitive advantage considering the robust long-term earnings growth and their growing market share and business diversification." – PSG Namibia

"The Capricorn Group is committed to growth and has an innovative approach to doing business. Results from the Namibian operations have been impressive as strong growth in the corporate banking division and a push to drive down funding costs have been driving the bottom line. The resilience of the Group's financial results in trying times is a testament to the strong and focused management, and we expect this resilience and innovation to continue." – IJG, Namibia

OUR VALUE CREATION SUMMARY

The inputs for our business model

FINANCIAL CAPITAL

All our services and offerings rely on the flow of money. We collect money through funding mechanisms such as bonds, deposits, dividends and reinvestments. We use money responsibly in our engagement with clients to facilitate transactions, to earn interest and to invest, while also applying it in the group to make acquisitions and distributions. For example, we distribute financial capital through dividends, taxes, remuneration and payments to suppliers. It is our business to increase financial capital.

Read more in the financial director's review on page 32.

HUMAN, INTELLECTUAL, SOCIAL AND RELATIONSHIP CAPITAL

Our purpose statement emphasises our role as a Connector of Positive Change. This implies relationships, knowledge and ethical behaviour reflecting stakeholder-inclusive thinking. We engage with our stakeholders to increase this capital through innovation, service improvement and empowerment that collectively bring positive change. By using and increasing the quality of these capitals we can identify and address anything that prevents value creation while increasing systemic awareness and responsiveness.

Read more in the section on our material matters from page 52.

MANUFACTURED CAPITAL

Our branches, offices, call centre, ATMs, cash express machines, cash and coins form part of the physical infrastructure and items that we use to operate in three countries. It gives us a base to interact with clients in a secure and convenient way. Our Nimbus acquisition gives us access to expanding data facilities and networks that provide digital infrastructure for online and mobile offerings. In addition, IT Infrastructure is a critical component to delivering our services to our customers and improving our system performance and stability. In this regard we have significantly invested in our countries of operation to upgrade and expand our IT infrastructure by adding capacity to our country networks and upgrading our data centres with the latest IT hardware and systems software. We have also commissioned new services from our telecommunication partners and have implemented a high-speed/high-capacity Data Ring connecting our three countries and South Africa. This has significantly improved our service delivery to our customers and also our systems availability, stability and performance.

Read more in the section on our material matters from page 52.

NATURAL CAPITAL

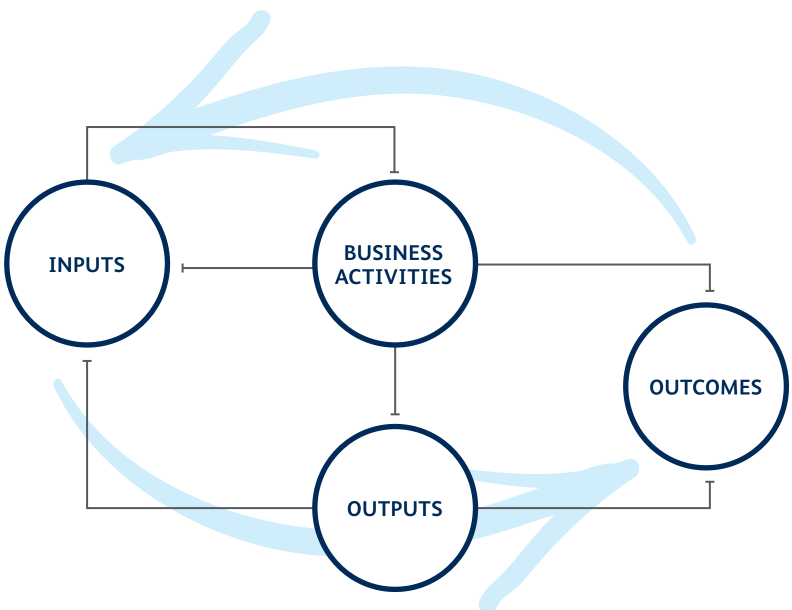
We are a relatively modest consumer of natural resources in our business activities, but the indirect impact of natural disasters such as drought can affect our business significantly. We provide credit and insurance to businesses that rely predominantly on natural resources and are at risk of climate change impacts. These include industries such as mining, agriculture, fishing and construction. We manage our exposure through an Environmental and Social Management System, which guides credit allocation and lending activities. We measure direct use such as water and electricity at the group's three main buildings in Windhoek to track our efforts to reduce use. This year Bank Gaborone moved into a new head office, which, once certified, will be the first Green Building Council of South Africa green star-rated building in Botswana.

Read more in the section on our material matters from page 52.

OUR VALUE CREATION SUMMARY

Our brand proposition states that we are catalysts of sustainable opportunities. Thus, there is an opportunity to be a catalyst in everything we do. Ultimately, our success as a group enables us to reinvest in the development of the economies in which we operate. We are recognised as a responsible corporate citizen, contributing to socioeconomic development, yet we aspire to do better and give more because we care about the future of the people whom we serve. This is why our vision is to be a Connector of Positive Change, linking our identity and ethos to the well-being of our country.

Value creation is a dynamic process of connections, decisions and change. We rely on The Capricorn Way, our four strategic choices and material matters to guide us in making this process sustainable.



The circumstances under which we operate are dynamic and complex within a system of markets, regulators and social and environmental challenges. Read more about our operating contexts in Namibia, Botswana and Zambia from page 42.

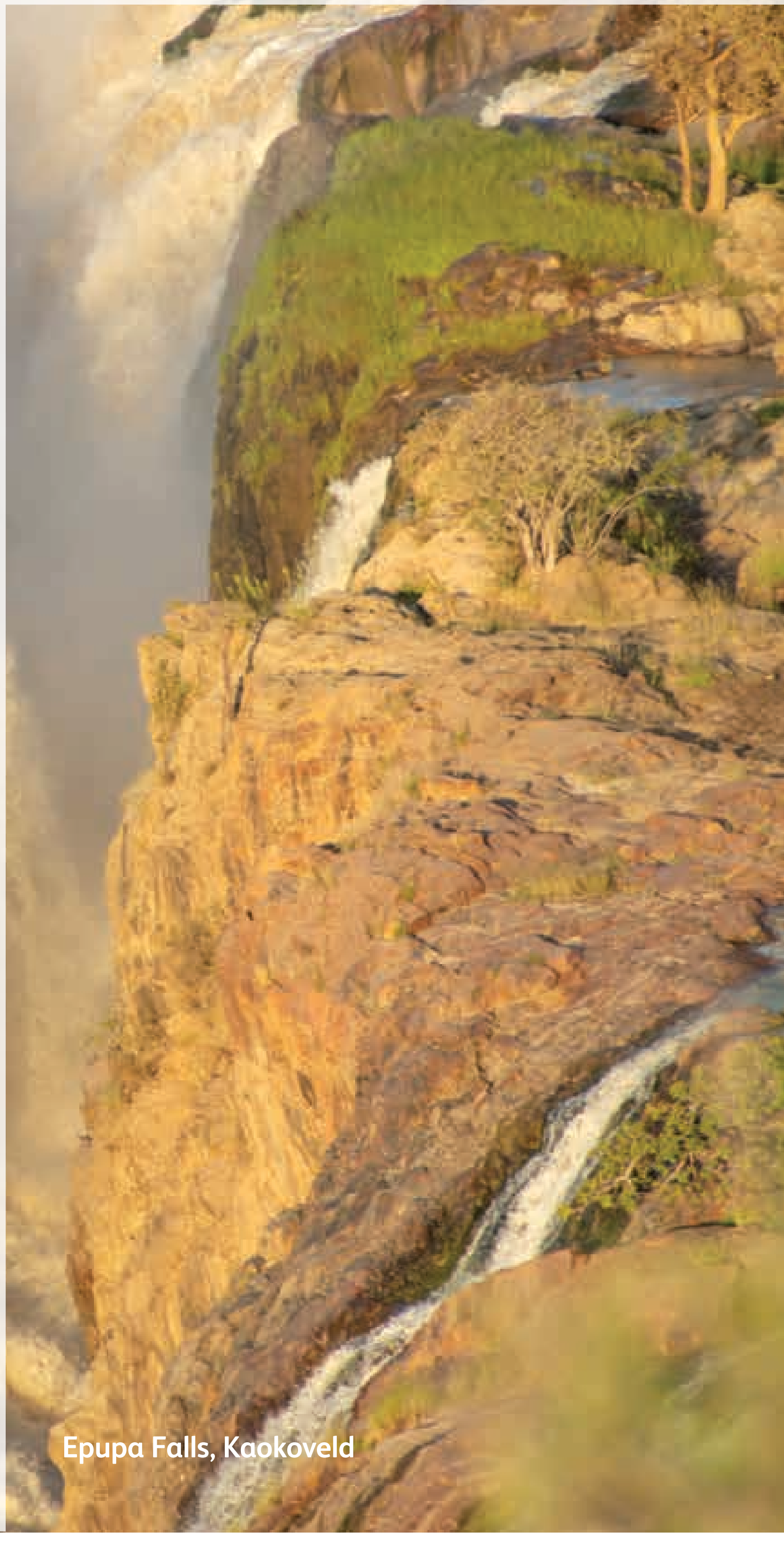
Our material matters from page 52 describe the internal and external risks and opportunities that we face as a group. By attending to these we are able to create sustainable value.

Our four strategic choices take the future availability of resources into account when directing us towards impact decisions and trade-offs. The board's authorities framework clearly states roles and responsibilities for these decisions. Our remuneration framework on page 110 ensures that performance is linked to the successful implementation of our strategy.

Synergies between our different business units mean that we can offer combined packages such as bancassurance, private wealth and investments, and specialised finance. These interdependent relationships increase our customer intimacy and market share, and enable us to act as Connectors of Positive Change in practice.

In an interconnected, dynamic operating environment, we make strategic choices that result in trade-offs between different stakeholders' interests over varying periods of time. Where these choices are made deliberately, we can mitigate value destruction and ensure that we act ethically. Trade-offs surface, for example, in the annual budget process when we have to divide limited resources between competing departments, activities and employee needs.

"Capricorn Group is proud to have a team of willing, extraordinary individuals who are living The Capricorn Way behaviours and displaying the attributes of being Connectors of Positive Change."
– Thinus Prinsloo, Group CEO



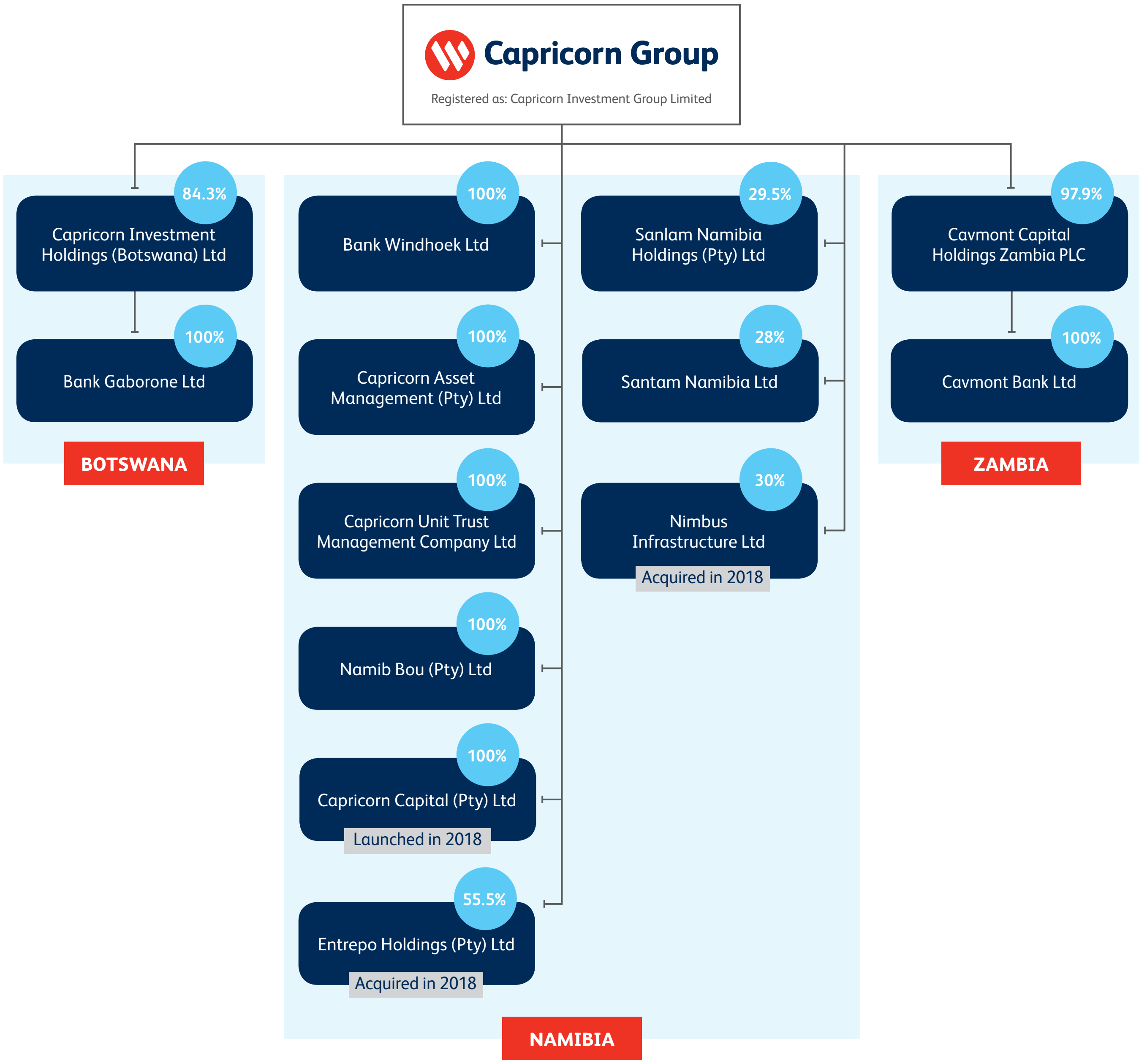
Epupa Falls, Kaokoveld

GROUP PROFILE AND STRUCTURE

WHO WE ARE

Capricorn Group at a glance

Capricorn Group is a diversified financial services group based in Windhoek, Namibia. We provide strategic guidance, oversight and support to our subsidiaries, whose operations are primarily focused on banking, insurance, wealth and asset management, and finance.



WHO WE ARE continued

WINDHOEK, NAMIBIA
HEAD OFFICE

1982
Date of establishment

1,575
Number of permanent employees **2018: 1,449**

69%
Contribution to group profit after tax **2018: 86%**

Bank Windhoek Ltd

Bank Windhoek, a fully-fledged bank and the flagship brand of the Capricorn Group, is the largest lender in Namibia.

Bank Windhoek offers a wide range of banking products and services covering the personal, corporate, small and medium enterprises market segments. Our offering includes transactional, investment and lending products, as well as digital and electronic banking services.

A wide spectrum of financial solutions for business clients includes structured finance, working capital finance as well as tailor-made term financing options.

Bank Windhoek offers a wide range of treasury services, including money market and foreign currency exchange services.

Our international banking services comprise foreign payment products, trade finance and foreign currency accounts.

Our bancassurance options include short-term, life, travel and commercial insurance, and guarantees.

One of the biggest highlights of the 2019 financial year has been when we became the first commercial bank in southern Africa to issue a green bond and the international recognition we received for winning this year's Green Bonds Pioneer Award from Climate Bonds.

As part of Bank Windhoek's customer-centric strategy to ensure that the bank caters for the evolving needs of customers and to continuously enhance the customer experience, the bank revised a number of the customer value propositions (CVPs) for its target segments during the reporting period.

Our recently launched contact centre expanded its service offering to include:

- cellphone banking registrations
- converting clients from paper to electronic statements
- dedicated internet banking support service for the branches

Bank Windhoek's private banking offering is provided through Capricorn Private Wealth, a joint venture between Bank Windhoek and Capricorn Asset Management, which caters to the wealth and investment needs of the affluent market.

Bank Gaborone

GABORONE, BOTSWANA
HEAD OFFICE

2006
Date of establishment

295
Number of permanent employees **2018: 289**

5%
Contribution to group profit after tax **2018: 6%**

Bank Gaborone Ltd

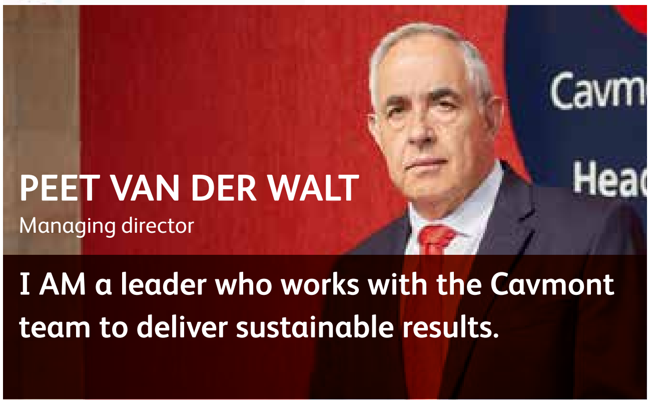
Since commencing operations in 2006, the bank has expanded its network to 12 branches and 4 BG finance offices countrywide, offering an increasingly broader range of products and services in response to market needs. To increase branch efficiency and branch focus on sales, the back-office operations of all branches were centralised. Additionally, the bank has opened the group's first 'branch of the future' which diversifies the services offered to clients within the branch.

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

- Deposit accounts for individuals and businesses including current, savings, investment and call accounts as well as foreign exchange products and services
- Loan accounts including vehicle and asset finance, home and building loans, unsecured lending through BG Finance, commercial loans and overdraft facilities.
- Bancassurance including short- and long-term insurance
- Electronic channels including internet banking, mobile banking and SMS notifications.

During the past financial year, the bank increased its market share to 7.5% and aims for medium term growth to a 10% share.

Cavmont Bank



LUSAKA, ZAMBIA
HEAD OFFICE

2004
Date of establishment

308
Number of permanent employees **2018: 324**

Cavmont Bank Ltd

Cavmont Bank is a 100% subsidiary of Cavmont Capital Holdings Zambia Plc (CCHZ) and was established in 2004. CCHZ listed on the Lusaka Stock Exchange (LuSE) in September 2006. Cavmont Bank provides corporate, investment, retail and community banking services. Its personal, business, treasury and credit products include:

- personal savings, transaction and loan products
- business transaction and loan products
- foreign exchange trading and deposit 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 the e-Cavmont internet banking facility.

Capricorn Asset Management

WINDHOEK, NAMIBIA
HEAD OFFICE

2006
Date of establishment

43
Number of permanent employees **2018: 43**

4%
Contribution to group profit after tax **2018: 5%**

N$26.3 billion
Assets under management **2018: N$22.2 billion**

Capricorn Asset Management (Pty) Ltd and Capricorn Unit Trust Management Company

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

CAM is a leading, fully Namibian-owned asset management firm aiming to meet the investment needs of individual investors, financial advisers, businesses and institutional investors, including pension funds and insurance companies. It manages investments covering all major asset classes in markets around the world.

Capricorn Private Wealth, a combined offering of CAM and Bank Windhoek, focuses on servicing the needs of the affluent market segment of the Capricorn Group in one integrated offering. The specific services CAM offers as part of this unique offering are investment advisory, financial planning, estate planning and fiduciary services.

CAM is also a leading unlisted investment manager with a specific focus on debt financing. The Caliber Capital Trust is an approved unlisted special-purpose vehicle in terms of regulation 29 of the Pension Funds Act, 24 of 1956. It provides Namibian pension funds and other institutional investors with an alternative to unlisted equity investments to diversify risk. The Caliber Capital Fund invests in Namibian companies that aspire to the aims of the Harambee Prosperity Plan and Vision 2030, which include job creation, import replacement and industry and infrastructure development.

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 in the unit trust sphere. With total assets under management of nearly N$20 billion, CUTM's latest market share is approximately 31% with 13 unit trusts covering all major asset classes, including cash, bonds, property, equity and international equities.

Capricorn Capital

WINDHOEK, NAMIBIA
HEAD OFFICE

2018
Date of establishment

7
Number of permanent employees **2018: 3**

Capricorn Capital

Capricorn Capital is a wholly owned subsidiary of the Capricorn Group. It offers its southern African investment banking advisory services from offices in Windhoek and Johannesburg.

Capricorn Capital's core investment banking advisory services include the provision of strategic, corporate finance, capital raising and specialised financial advice to public and private companies, private equity firms, family offices and governmental and other bodies located in or wishing to invest in southern Africa. It includes southern African entities seeking strategic investors or acquisition targets abroad.

Capricorn Capital follows a collaborative model, leveraging its global relationships to partner with leading industry and sector specialists to provide an unparalleled level of attention and expertise to its clients, placing them in the best position possible to achieve their desired outcomes.

We offer bespoke, integrated and intelligent solutions in the following areas:

Corporate finance

- Mergers and acquisitions
- Divestitures
- Recapitalisations
- Restructuring
- Sovereign advisory
- Valuations and due diligence
- Strategic advice

Capital markets

- Equity capital market advisory
- Debt capital market advisory
- Debt and equity private placements
- Placement with alternative investors through Neu Capital Africa
- Strategic capital and minority investments

Specialised finance

- Project finance
- Leveraged finance
- Acquisition finance
- Structured products
- Structured credit and derivatives
- Tax structuring

WHO WE ARE continued

WINDHOEK, NAMIBIA
HEAD OFFICE

2014
Date of establishment

33
Number of permanent employees **2018: 30**

15%
Contribution to group profit after tax

Entrepo Holdings (Pty) Ltd

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

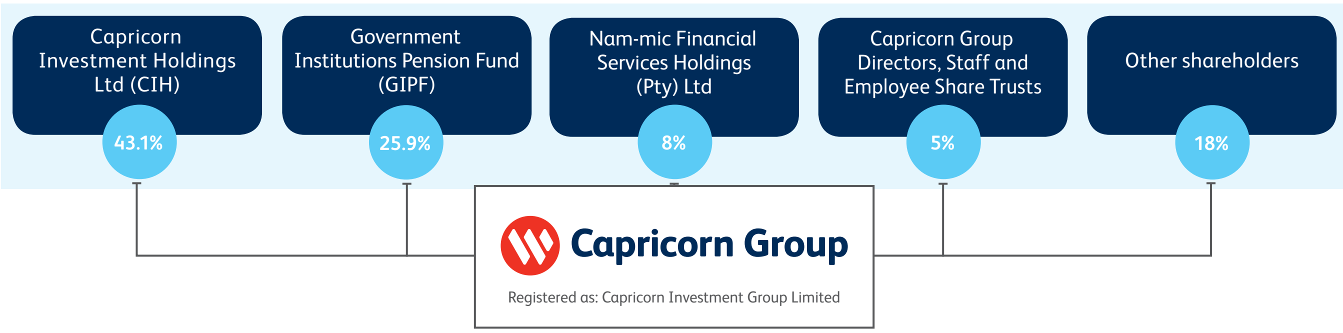
More information on our associates is available online:

Nimbus Infrastructure Ltd	Nimbus.africa
Sanlam Namibia Holdings (Pty) Ltd	www.sanlam.com/namibia
Santam Namibia Ltd	www.santam.na

SHAREHOLDING AND OWNERSHIP

Shareholders in Capricorn Group

Capricorn Group is listed on the NSX. This means that shares are traded publicly and that any stakeholder can acquire shares and participate in the ownership of the group. At the end of the 2019 financial year, the group had a diversified shareholder base, with total direct and indirect black shareholding exceeding 40%. Below is the shareholding in the Capricorn Group as of 30 June 2019.



A detailed analysis of public and non-public shareholding, the distribution of shares and the beneficial ownership of the Capricorn Group shares are set out in the Appendix on page 129.

I AM MOTSWANA

We are known for the exquisiteness of the Kalahari Desert and the Okavango Delta, but the most valued treasure is our people. We are proud to be Batswana and want to see our people and nation flourish. Like the rain that is sacred to our country, we hold dear our commitment to creating a lifelong impact on the progress of our people.

LEADERSHIP REPORTS

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

Reflecting on the 2019 financial year

Our previous chairman, Koos Brandt, said a bank should be there for customers in the good and bad times. Building on this philosophy, we have supported our customers in the past financial year during sometimes very difficult circumstances, and we can now see the positive impact it had. We anticipate the tough conditions to persist, amplified by economic challenges and the widespread impact of the drought, resulting in consumers, including our customers, remaining under pressure and in need of innovative solutions that will address their unique challenges. This calls for finding ways to mitigate risk for all.

Despite challenging conditions, the group saw solid performance from Bank Windhoek and Bank Gaborone, an encouraging albeit slow turnaround at Cavmont Bank and a stellar performance from newly acquired Entrepo. Capricorn Asset Management (CAM) continued growing market share and returned good results notwithstanding lower rates of fee income. As a result, group operating profit increased by 13.5% compared to the previous year.

This can be ascribed to a few specific value drivers:

- Significant progress has been made with the implementation of the Agile methodology in technology change since the beginning of the 2019 financial year. We can now build a solution for one bank and roll it out quickly to others. We are creating a culture of experimentation, quick decisions and fewer rollover projects.
- Our ability to detect increased credit risk early and our efforts to proactively engage with customers showing signs of financial distress helped us to manage non-performing loans (NPLs) – a pervasive and growing challenge across the region. By preventing loans from defaulting, we can improve the chances of recovery. Where accounts became non-performing despite our preventative measures, good collateral security ensured that we could contain impairment provisions.
- Our leadership teams have managed their respective businesses well. Key appointments were made: a new chief information officer (CIO) joined the group executive leadership team, a new managing director was appointed for Cavmont Bank, and several other skilled and experienced employees joined the group.

Our platform approach

Capricorn Group identified eight platforms to implement strategic choices through operational excellence:

1. **Digital platform**
2. **Core banking platform**
3. **Process automation platform**
4. **Information and analytics platform**
5. **Legal compliance and risk platform**
6. **Human resources platform**
7. **Finance platform**
8. **Infrastructure platform**

The platform approach delivered the following benefits:

- Increased execution traction due to better focus on realistic outputs within properly planned timeframes
- Higher levels of alignment between business and platforms with improved communication
- Changed behaviours: higher energy levels, higher engagement levels
- Increased transparency about execution progress
- Satisfactory levels of adoption of the Agile methodology

Concerns that are being addressed in terms of this approach relate to capacity, measuring the impact and retaining momentum.

The platforms further contribute by improving the quality, predictability and visibility of project delivery, by increasing product capabilities and enabling us to discover business opportunities.

"Despite challenging conditions, the group saw solid performance from Bank Windhoek and Bank Gaborone, an encouraging albeit slow turnaround at Cavmont Bank and a stellar performance from newly acquired Entrepo."

2019 performance summary

Bank Windhoek

Bank Windhoek, our largest contributor to group profit after tax, returned a very solid performance with an increase of 1% to N$797.7 million (2018: N$796.8 million). As the largest lender in Namibia with a 32.4% market share, Bank Windhoek is exposed to local industry and economic conditions, but delivered better interest margins, improved liquidity and better cost management. Operating profit (excluding exceptional items of 2018) improved by 10.6% to N$1,124.5 million (2018: N$1,017.0 million).

Through the acquisitions of new transactional accounts, especially in our corporate and Private Wealth segments, new solar plants, renewable energy initiatives and companies with resilient business models, Bank Windhoek achieved moderate growth despite the challenging economic environment.

Bank Windhoek competes by providing outstanding client service at affordable levels, and by empowering branch managers to use their local knowledge and client relationships to enhance the client experience. Through our easy-to-use, convenient and highly reliable digital channels, clients are provided with 24/7/365 transactional banking services.

Capricorn Private Wealth performed exceptionally well over the past year. The success of Capricorn Private Wealth, albeit growing off a small base, can be attributed to an offering that is flexible, personalised and offers the highest service levels.

Given the prolonged drought in Namibia, the agricultural sector remains under immense pressure. Bank Windhoek has joined efforts with clients and the agricultural sector to provide much-needed support. The bank contributed N$500,000 to the Dare to Care Fund in support of farmers and has also proactively established a focus group to assist and manage the bank's clients operating in this sector.

Following the revision of the customer value proposition in Bank Windhoek's target segments and in response to the voice of the customer, a number of features, enhancements and new products have been introduced. Additional features on the Women in Business offering, the introduction of the HeyJude App, credit SMS notifications, an integrated point-of-sale solution and free life and legal cover on most personal transactional accounts are a few of the notable offerings introduced.

THINUS PRINSLOO

Group chief executive officer

GROUP CHIEF EXECUTIVE OFFICER'S REPORT continued

The HeyJude App was successfully launched to market in May 2019. This is a first-of-its-kind offering in the Namibian banking environment where a unique, value-added digital service is being coupled with our banking offering to try to cement our brand promise of "Connectors of Positive Change". The app is a digital personal assistant that sources products and services, negotiates discounts and arranges payment and delivery on the customer's behalf.

"Bank Windhoek shares the responsibility to protect our country for future generations by actively contributing to and facilitating the transition to a low-carbon and climate-resilient economy." – Baronice Hans, Bank Windhoek's managing director

Bank Gaborone

Bank Gaborone delivered good results, with 15.7% growth in revenue (2018: 6.7%) and a 11.4% improvement in operating profit (2018: 17.3%). This follows significant growth in customer sales, partly owing to the launch of a new unsecured lending product. The new product requires customers to deposit their salaries into a Bank Gaborone transactional account.

We also launched bulk payment services, which enabled us to start offering payroll services and capturing more employee accounts.

Several enhancements to digital banking functionality and network stability increased Bank Gaborone's online uptake. This is driving transactional income growth and included:

- the launch of point-of-sale (POS) devices
- the fast-branch-of-the-future concept was built and launched at the new head office
- a state-of-the-art data centre was established and is being run at the bank's new head office
- infrastructure, including lines, servers, switches, routers and firewalls, was upgraded
- a complete national overhaul of the PABX system was completed
- three new retail and five new lending products were launched
- three new branches and six new ATMs were rolled out
- the front and back ends of the core banking and digital channels systems and interfaces were upgraded

Our biggest challenge in Botswana remains continued downward pressure on interest margins with the central bank continuing to reduce the bank rate and cost of funding increasing. The upward pressure on cost of funding was partly due to the uncertainty and volatility of liquidity levels in the market, as investors explored other investment opportunities yielding higher returns both inside and outside Botswana. The bank also has relatively high exposure to price-sensitive treasury funding, limited retail depositor funding and is reliant on term deposits. To address this, term deposits have been repriced and our digital offering – including POS and bulk payment capabilities – has been used to grow current account deposits.

In the short term, Bank Gaborone's focus remains on growing its loan book, containing its cost of funding, optimising liquidity and stemming the rising trend in NPLs. We further explain our mitigation efforts in the risk report from page 86.

Cavmont Bank

Notwithstanding an increasingly difficult operating environment in Zambia, Cavmont Bank significantly reduced losses during the year. The business recorded a loss after tax of N$19.8 million (2018: loss after tax of N$46.6 million).

Group support and oversight for the turnaround plan continues, with remediating actions driven by the executive management team. Focus areas in the past year were:

- sourcing of cheaper deposits to reduce the funding gap and improve cost of funds
- increasing interest income through investment in government securities or loans and advances depending on availability of liquidity
- continued cost management efforts
- increasing foreign exchange trading volumes and margins

Branch rationalisation and the streamlining of head office support functions are key initiatives to reduce an unsustainable cost base. After engagements, the Bank of Zambia approved the restructure, which includes the closure or downsizing of a number of branches and support functions.

The restructure follows a strategic shift away from predominantly retail customers to business banking, repositioning Cavmont Bank to focus particularly on SMEs – a targeted fit with our service and relationship strengths.

Products and solutions for customers have been rationalised to ensure that only profitable options are made part of the product offering. Instant cards are now being issued at the point of account opening, and improved uptime of Cavmont Bank's ATMs made the Cavmont Bank Visa Classic debit card more attractive to customers.

Liquidity risk currently poses the greatest challenge to the bank attaining its turnaround objectives. Issues related to connectivity, payment platform functioning and network downtime are being addressed. Mitigating actions include the migration to a new data centre. This also resulted in improvements in the quality of data, which means improved performance tracking and significantly better focus on short-term business performance owing to clear key performance indicators and regular reporting.

Capricorn Asset Management

Capricorn Asset Management (CAM) launched its digital platform, Capricorn Online, in September 2018. This allows investors to manage their investment portfolios and provides access to a wide range of investment options, including the Capricorn Unit Trusts. With a 0% fee, which is unique in Namibia, the platform pricing is highly competitive.

Despite a fiercely competitive market, CAM increased its market share in unit trusts from 29% to 31%. Most of the growth originated from investment short-term interest-bearing funds. The Capricorn Investment Fund passed the N$9 billion mark while the Capricorn Corporate Fund grew to over N$5 billion. A further highlight was the significant growth in the Capricorn High Yield Fund and Enhanced Cash Fund, which grew by more than 175% and 40% to N$1.8 billion and N$1.3 billion respectively. The Capricorn Private Wealth client base grew to over 500 during the year.

Unfortunately, equity and listed property markets underperformed. This resulted in market value reductions, disinvestments and clients seeking the safer haven of cash and bonds. Consequently, the Capricorn Equity Fund decreased by 38% and the Capricorn Property Fund by 37%. This had a significant fee impact on CAM due to money shifting from higher-fee-earning funds to lower-fee-earning money and capital market funds.

During the year, CAM employees created their own impact fund to which they contribute in their personal capacity to support their nominated projects, acting as true Connectors of Positive Change.

"Capricorn Group is proud to have a team of willing, extraordinary individuals who are living The Capricorn Way behaviours and displaying the attributes of being Connectors of Positive Change. This is facilitating a shift in mindset within all Capricorn Group employees to a more future-focused, open, collaborative way of thinking about strategy."
– Thinus Prinsloo, Group CEO

Capricorn Capital

Capricorn Capital launched its brand and service offering in September 2018. The 2019 financial year was a formative period where key relationships were forged with new clients and collaborative partners. We continued to build the team that is required to implement a pipeline of transactions and opportunities successfully. Our strategy was refined to include the following initiatives:

- The current economic climate in southern Africa resulted in numerous entities requiring restructuring or business rescue. As this trend is likely to continue, we are establishing a reputation with key banks and other lenders as an effective restructuring team.
- We have identified large family businesses across the region with limited succession planning, where we can assist in providing corporatisation support and sell-side advisory services. With the commodity cycle expected to turn in the near to medium term, we are positioning ourselves to advise international mining houses looking to invest in or acquire local productive assets as well as assets for exploration.
- We are assisting businesses that have limited access to liquidity in the current market to access capital by divesting their non-core assets. This includes assisting businesses in varying stages of restructuring and turnaround to raise equity.
- We are well positioned as an advisory partner to inward investors such as offshore impact funds, development finance institutions and small to mid-size private equity with a southern Africa mandate. This includes providing transaction support, such as due diligence and valuation services.

GROUP CHIEF EXECUTIVE OFFICER'S REPORT continued

Namib Bou

The symptoms of a severely depressed economy were visible in the drastic slowdown in property developments and sales. This included the development of houses at Ondangwa Extension 20 (Phase 3) and downward pressure on property valuations in most price categories on a national level.

As a result, we focused on more affordable designs while attempting to address the needs of home buyers better.

The valuation business improved its financial contribution following the conclusion of service level agreements, streamlined operations and the gathering of critical market information in a vulnerable time for the property sector.

Following the retirement of Johan Nienaber, who was executive director at Namib Bou for 13 years, we appointed Bernard Minnaar as managing director, effective 1 January 2019.

Associates and other subsidiaries

Santam and Sanlam

Income from associates Santam and Sanlam decreased by 18.9% (2018: 6.6% increase).

Santam maintained its leading market position with strong underwriting performance under difficult economic conditions. This resulted from diversified income streams such as bancassurance, digital solutions and a new core underwriting platform. Growth challenges included negative GDP growth that resulted in policy cancellation and clients adjusting policy scope to reduce premiums. Claims resulted mainly from the drought and large commercial property fires. Unfortunately, Santam received a N$15 million fine in July 2019 from the Namibian Competition Commission due to anti-competitive behaviour.

The key highlights for Sanlam Namibia were the exceptional performance in the entry-level market business unit and effective cost management. Challenges included the effective turnaround of the affluent business unit which has been struggling for the past few years, negative risk experience on the group business side and increased lapses due to larger new business volumes taken on in the entry-level market business.

Both Santam and Sanlam continue to focus on synergies with key stakeholders, optimised efficiencies and stringent cost management.

Entrepo

Entrepo operates in the Namibian lending and long-term insurance markets, with a specific focus on the government employee segment as a deduction code holder. It exceeded expectations in its first year as part of the group. At the time of making the 55.5% acquisition, we envisaged a 17% contribution to group profit after tax, with the actual contribution being 15%. Entrepo's excellent performance is attributable to:

- Good new business inflows resulting from a distinct competitive edge in the speed and effectiveness whereby new loans are approved and disbursed, high levels of customer satisfaction, two new branches opened in Oshakati and Katima Mulilo and a shift in emphasis towards loan consolidations and client retention
- Increasing net interest margins at Entrepo Finance and underwriting profits at Entrepo Life
- Low loan write-offs at Entrepo Finance
- Low cost-to-income ratios
- Reducing debt-to-equity ratios
- Good investment income at Entrepo Life

Net premium income at Entrepo Life increased by 5.7% to N$103.5, with new business largely derived from the sales at Entrepo Finance. The claims experience remained within the actuarial assumptions and guidance. The capital adequacy ratio improved further and is well above the statutory requirements. Good investment income was gained from the growing shareholder and policyholder reserves, which are invested in terms of regulatory requirements.

Nimbus

Although Nimbus did not meet our performance expectations and did not declare any dividends, we remain committed to this 30% investment. It supports our intent to diversify through partnerships and facilitates operational growth through expanded access to infrastructure. Through Nimbus, we contribute positively to SADC development as the region benefits from higher internet speed and improved connectivity.

The Trans-Kalahari Fibre (TKF) line running between Swakopmund and Buitepos (on the Botswana border) was completed during September 2018. The TKF network extends 4,160 kilometres from the West Africa Cable System (WACS) cable landing station in Swakopmund to the EASSY cable landing station in Dar es Salaam, connecting the east and the west coast. This enables the export of bandwidth to other African countries.

Nimbus was admitted to the NSX Main Board in June 2018 and subsequently increased its interest in Paratus Namibia to 51.4%. It also concluded a rights issue, raising N$103,444,792.

Connections for Positive Change

Capricorn Group employees, business units, teams and board members all acted individually and collectively as Connectors of Positive Change. Some examples of the outcomes include:

We appointed a millennial board	The NeXtGen board was established in March 2019 to promote a culture of collaboration within the group, to help leaders recognise outdated conventions and to provide input into new or existing projects. This brings a fresh perspective that speaks to the millennials and Generation Zs who make up more than 60% of the workforce and a large portion of our clients. The NeXtGen board is chaired by Bank Windhoek's chief financial officer and comprises a group of 12 young employees, mandated to contribute to the Capricorn Group strategy.
Bank Windhoek issued Namibia's first green bond	Bank Windhoek is the first commercial bank to issue a green bond in the southern African region. The green bond is listed on the Namibian Stock Exchange and complies with the Sustainable Stock Exchanges (SSE) Initiative, a UN Partnership Programme of the UN Conference on Trade and Development (UNCTAD) and the UN Global Compact. Bank Windhoek aims to become the green financier of choice for sustainability projects in Namibia and in other countries in which the group operates. Proceeds from the bond will be used to finance eligible green projects and assets, which include renewable energy, energy and resource efficiency, green buildings, sustainable waste management, clean transportation and sustainable water management. Since issuing the bond, Bank Windhoek was awarded a Green Bonds Pioneer Award from Climate Bonds.
Bank Windhoek co-financed a new Debmarine vessel	Bank Windhoek, in partnership with four financial institutions, financed a new diamond recovery vessel for Debmarine Namibia – one of our largest commercial transactions to date. The state-of-the-art semi-submersible multirole vessel will be the world's largest diamond recovery vessel and will enhance Debmarine Namibia's ability to recover diamonds off Namibia's Atlantic coastline. The N$5.6 billion asset financing facility constitutes 80% of the vessel cost and will be financed by Bank Windhoek and four other banks.
We provided finance to alleviate housing shortages	To support the Namibian government's efforts to alleviate the shortage and backlog in housing, Bank Windhoek offered financing to potential buyers of PolyCare houses. These houses are aimed at medium- to low-income earners who are unable to afford conventional housing at current market prices and interest rates. PolyCare houses are constructed without having to use water and can be built within ten working days.
Improving well-being, health and productivity	Bank Gaborone launched the Diabetes Apple Project to raise funds to help support and care for people with diabetes in Botswana. The partnership with the Diabetes Association of Botswana follows the success of Bank Windhoek's flagship Cancer Apple Project.
Sharing investor expertise	Capricorn Group co-hosted a workshop to share investor reporting best practice with peers listed on the Namibian Stock Exchange. The workshop provided input on starting a reporting journey, integrating governance reporting and understanding what investors look for.
Cavmont Bank gives practical money advice	Cavmont Bank supports and participates in the Smart Money show, a half-hour weekly magazine programme that gives viewers in Zambia an in-depth look at current money and business topics. It allows Cavmont Bank to offer practical and inspirational financial advice on topics such as renting vs buying a house, monetary policy and scams to avoid.
CAM employees making an impact	Capricorn Asset Management's staff launched the CAM Impact Fund to which they contribute weekly through fundraisers in the office and, in turn, donate the funds collected or essential goods to different social responsibility projects. The staff nominated and selected their top six social responsibility projects which they support over the calendar year, enabling them to be Connectors of Positive Change.
Caliber Capital Trust supporting Harambee objectives	Caliber Capital Trust, managed by Capricorn Asset Management, has extended debt to Namibian companies that support 1,129 families. In support of the Harambee objectives, the debt financing has assisted in modernising healthcare, improving food security as well as increasing the country's energy capacity, which in turn reduces its reliance on imported energy.

GROUP CHIEF EXECUTIVE OFFICER'S REPORT continued

Outlook

The operating environment is expected to remain challenging. Interest rate cuts in Namibia are almost certain, which will negatively impact the interest margin of Bank Windhoek. Consumers are expected to remain under pressure, with very little economic growth anticipated.

This calls for enhanced engagement with our clients on all aspects of their financial needs and finding ways to mitigate risk for all – really putting the customer at the centre of everything we do. Building on the speed of execution and adaptability that we ingrained in the business this year, we will exploit opportunities and further improve our offerings.

We are positive that the group will maintain its resilience and continue to deliver positive results. By delivering on our strategy, diversifying investment and keeping our focus on operational excellence, we will be able to continue creating value and contributing to positive change. As stated by our chairman, the recent Economic Growth Summit in Namibia was a very positive sign and hopefully the beginning of even more collaborative initiatives and discussions to address our national challenges.

Thinus Prinsloo
Group chief executive officer

"Our previous chairman, Koos Brandt, said a bank should be there for customers in the good and bad times. Building on this philosophy, we have supported our customers in the past financial year during sometimes very difficult circumstances, and we can now see the positive impact it had. We anticipate the tough conditions to persist, amplified by economic challenges and the widespread impact of the drought, resulting in consumers, including our customers, remaining under pressure and in need of innovative solutions that will address their unique challenges. This calls for finding ways to mitigate risk for all."
– Thinus Prinsloo, Group chief executive officer.

Chobe National Park

FINANCIAL DIRECTOR'S REVIEW

2019 overview

Despite the economies in the region where we operate being under severe pressure, the Capricorn Group delivered very good results, with group profit after tax for the year ended 30 June 2019 of N$1,015 million (2018: N$934 million), surpassing the N$1 billion mark for the first time.

Bank Windhoek, Capricorn Asset Management and Entrepo Holdings' performances exceeded expectations, while Bank Gaborone performed in line with its targets for growth and profitability. Cavmont Bank showed improvement compared to the prior year with a significantly reduced operating loss.

Sharp declines in investment income and challenging market conditions for underwriters, resulted in income from associates reducing by 12.7%.

The following events might affect the comparability of financial information since the previous financial year:

- The contribution from Entrepo was included for the first time in our full-year results.
- Exceptional items relating to a gain-on-bargain purchase of Entrepo of N$38.8 million and profit on the sale of Visa shares of N$77.3 million which were included in the prior period were not repeated in the current period.

Excluding exceptional items mentioned above in the prior year,

- group operating profits increased by 26.0% to N$1.36 billion;
- headline earnings per share increased by 14.9% to 181.5 cents (2018: 157.9 cents) per share; and
- earnings attributable to shareholders increased by 15.3%.

Financial performance summary

The graphics on page 9 and the five-year financial overview on page 5 set out the salient features of the group's financial performance for the year under review and the past five years.

JACO ESTERHUYSE

Financial director

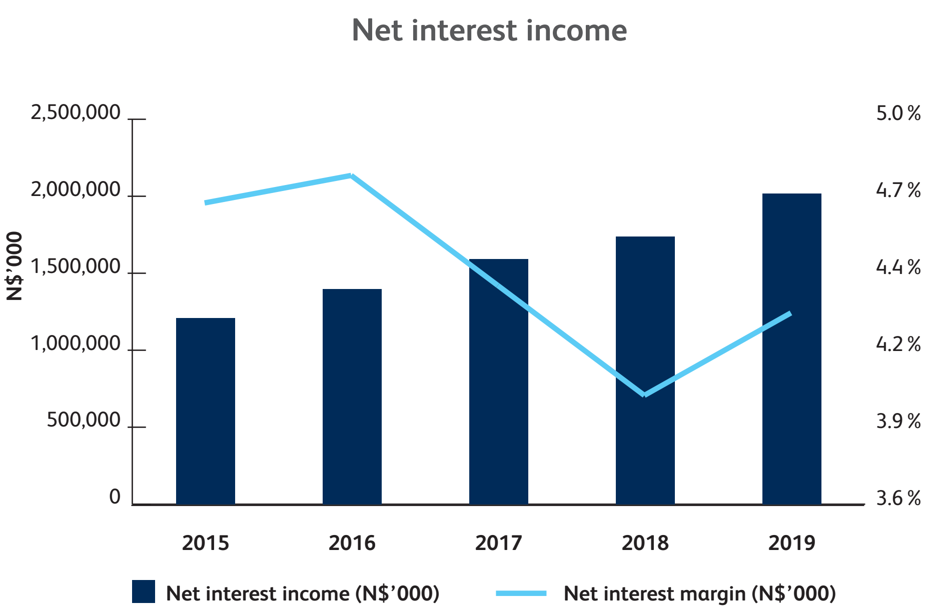
Good improvement in net interest margin

In the 2017 financial year, the increase in net interest income was largely as a result of the acquisition of Capricorn Investment Holdings (Botswana) Limited (CIHB) and Cavmont Capital Holdings Zambia Plc (CCHZ).

Net interest income increased with 17.3%. Bank Windhoek contributed 8.3% of this growth mainly through good margin improvement resulting from lower cost of funding and effective liquidity management. The margin improvement has been achieved notwithstanding the bank increasing lower-yielding liquid assets significantly (growth of 15.3%), whilst higher-yielding loans and advances showed growth of 6.3% over the year. This resulted in a considerable improvement in the average loan to funding (LFR) ratio of Bank Windhoek from 93.1% to 92.1% compared to the prior year. The inclusion of Entrepo contributed 5.0% of the growth in net interest income.

Bank Windhoek's improvement in the net interest margin is even more remarkable given the significant increase in non-performing loans from N$829.4 million to N$1,222.9 million and the negative effect suspended interest had on the bank's margin.

Bank Gaborone's net interest margin decreased from 3.8% to 3.5%, mainly due to increased cost of funding, resulting from more prudent liquidity management through an increased maturity profile. Cavmont Bank also experienced a shrinking interest margin due to low market liquidity giving rise to increased pricing of deposits in Zambia. As depicted in the graph below, the group experienced an improvement in the net interest margin to 4.3% (2018: 4.0%).



FINANCIAL DIRECTOR'S REVIEW continued

Strong growth in non-interest income with continued improved in diversification of revenue streams	Group non-interest income consists of the following categories: • Transaction-based fee income (45% (2018: 53%)) • Card and digital channels (20% (2018: 21%)) • Commission and other insurance (12% (2018: 5%)) • Asset management fees (9% (2018: 10%)) • Net trading income (14% (2018: 9%)) Non-interest income (excluding the effect of exceptional items) grew by 22.6% to N$1.36 billion for the year ended 30 June 2019. The growth is mainly attributable to: • strong forex trading income across the three banks (contributing 9.0% to the growth); • strong, consistent income from electronic channels within Bank Windhoek increasing by 25.4%; • good growth in transaction fee income in Bank Gaborone of 45.4%, mainly as a result of a transaction volume increase; and • the income from underwriting activities contributed by Entrepo for the first time (13.6% of the growth). Cards and digital channels showed consistent growth over the past few years as customers switch to online and mobile solutions. Not surprisingly, it is in this capability and functionality that the group invests most significantly. Asset management income increased by 11.3% to N$118.2 million (2018: N$105.8 million). By increasing the ratio of non-interest income to total income, we continue to decrease the dependency on net interest income and therefore lessening the impact of shrinking margins due to reduction in interest rates by central banks and increased cost of funding attributed to factors beyond our control.

IFRS 9 significant impacting impairment provisions	Impairment charges were for the first time, calculated in terms of the new IFRS 9 standard that was adopted on 1 July 2018. Under the new standard, impairments are determined based on an expected credit loss model rather than the incurred loss model (IAS 39) used for the previous year. The level of provisions under IFRS 9 are more in line with the provisions required by determination BID-2 of Bank of Namibia on Asset Classification, Provisioning and Suspension of Interest (BID-2) compared to IAS 39. It emphasises a more proactive impairment provisioning approach.

Impairment charges for the group increased by 41.7% to N$114.5 million (2018: N$80.8 million). The impact of the first time adoption per bank is illustrated below as well as the movement for the year.

Bank Windhoek	**N$'000**
IAS 39 opening balance – 1 July 2018	**230,314**
IFRS 9 implementation adjustment	**218,932**
Adjusted opening balance – 1 July 2018	**449,246**
Impairments and bad debts written off	**51,282**
Closing balance – 30 June 2019	**500,528**

Bank Gaborone	**P'000**
IAS 39 opening balance – 1 July 2018	**92,150**
IFRS 9 implementation adjustment	**17,871**
Adjusted opening balance – 1 July 2018	**110,021**
Impairments	**10,144**
Closing balance – 30 June 2019	**120,165**

Cavmont Bank	**ZK'000**
IAS 39 opening balance -–1 July 2018	**10,083**
IFRS 9 implementation adjustment	**97,280**
Adjusted opening balance – 1 July 2018	**107,363**
Impairments and bad debts written off	**(19,389)**
Closing balance – 30 June 2019	**87,974**

Impairment charges for Bank Windhoek increased by 63.1% whilst both Bank Gaborone and Cavmont Bank decreased by 45.1% and more than 100%, respectively.

The impairment coverage ratios for the three banks as at 30 June 2019:

- Bank Windhoek: 42.8%
- Bank Gaborone: 47.6%
- Cavmont Bank: 110.5%

Cavmont Bank has been significantly impacted by the downgrade of the Zambian sovereign rate on 26 June 2019 to CCC-, the last grade before default. In accordance with IFRS 9, impairment provisions had to be recognised on its holding of government securities, e.g. treasury bills and government bonds, using probability of defaults (PDs) and loss given defaults (LGDs) prescribed by one of the three main rating agencies. This resulted in an additional impairment provision of ZMW13.9 million to be raised on Cavmont Bank's government securities holdings at year end.

More information regarding Capricorn Group's loan book is discussed under loans and advances on page 37.

FINANCIAL DIRECTOR'S REVIEW continued

Operating expenses are well controlled

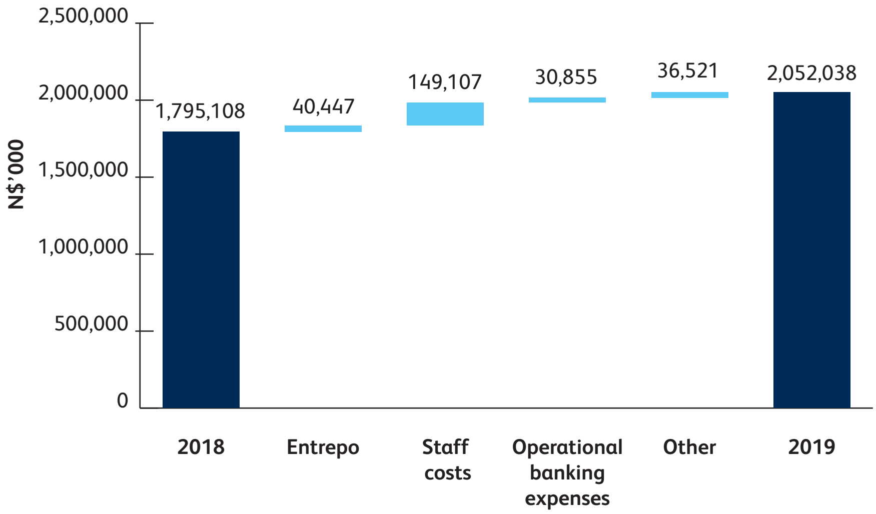
Operating expenses increased 14.3% year-on-year from N$1.8 billion to N$2.1 billion as a result of three main factors:

- the inclusion of Entrepo, which contributed 2.3% of the growth;
- staff cost, which increased by 15.6% and contributed 8.3% of the growth, was mainly attributed to the inclusion of Entrepo, building capacity in Capricorn Private Wealth and the group's IT function, and increase in performance remuneration linked to the group's improved financial performance; and
- operational banking expenses increased with N$30.9m (18.6%) from the prior year, mainly due to increased transaction volumes, property valuation fees and a once off loan settlement fee within Bank Windhoek.

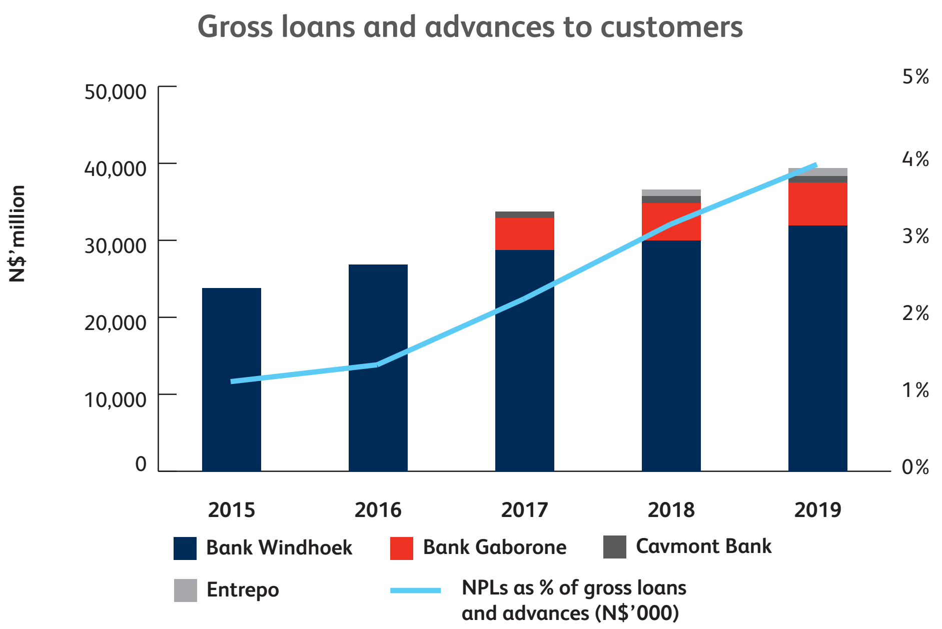
The increase in staff cost should be viewed in conjunction with the savings on projects and flexible resources as there was a drive to replace IT consultants with permanent employees in Namibia.

Excluding the items mentioned above, remaining cost only increased by 2.0%, well below inflation.

Group operating expenses

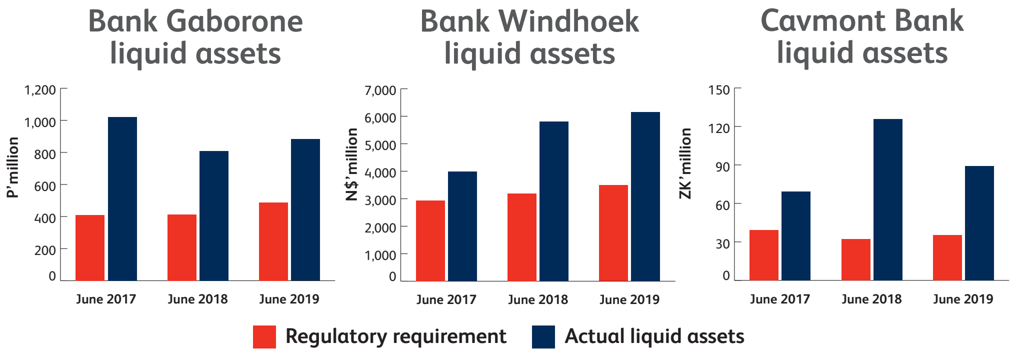


Satisfactory growth in loans and advances	Gross loans and advances increased slightly below with private sector credit extension by 6.5% (N$2.3 billion) to N$39.0 billion. N$2.0 billion of this increase is accounted for by commercial loans in Bank Windhoek and Bank Gaborone increasing by 31.2% and 28.6% respectively. Current adverse economic conditions have seen a substantial increase in non-performing loans (NPLs) across the industry. Our group was no exception, with NPLs increasing from N$1.2 billion as at 30 June 2018 to N$1.6 billion as at 30 June 2019. The increase is mainly as a result of: • some large well-secured loans within Bank Windhoek, classified as NPLs in this financial year, contributing 70% of the total growth of the group; • Bank Gaborone's NPLs increasing by 34.4% from BWP188.0 million to BWP252.6 million; impairment of mortgage loans and, to a lesser extent, in overdrafts and finance; and • Cavmont Bank seeing a reduction in NPLs as a result of improved credit processes and active management of the non-performing book through collections and rehabilitation. Bank Windhoek experienced a fairly large shift in its asset mix with overdrafts and mortgage loans remaining relatively flat and vehicle finance declining, while commercial loans grew. The group's loans and advances book remains healthy, notwithstanding the current economic environment. This is testimony to the group's success in prudent credit management and the benefits of a decentralised credit model.



FINANCIAL DIRECTOR'S REVIEW continued

Significant liquidity buffers	Liquid assets increased by 14.6% compared to the prior year. This is largely due to a key focus by Bank Windhoek to grow liquid assets which increased by 15.3%, resulting in a significant improvement to the bank's LFR ratio.



All three banks exceed the minimum regulatory requirements as at 30 June 2019 with healthy excess above minimum liquidity requirement as indicated below:

- Bank Windhoek: N$2.7bn (176.4%)
- Bank Gaborone: P392.5m (80.2%)
- Cavmont Bank: K199.0m (151.9%)

Strong growth in funding

Total funding increased by N$3.6 billion (9.0%) to N$43.9 billion as at 30 June 2019.

Growth in funding is attributable mainly to growth in NCDs in Bank Windhoek and term deposits in Bank Gaborone. This was largely driven by market appetite.

Funding growth would have been higher had it not been for the repayment of the DEG loan by Bank Windhoek, while Zambia saw liquidity pressures in a low liquidity market.

Although Bank Windhoek grew their funding in line with general money supply it has actively managed the cost of funding. This resulted in a decrease in the average cost of funding from 6.7% in the prior year to 6.6%, improving the interest margin of the bank.

Capricorn Group issued a medium-term note programme on both the Namibian and the Botswana Stock Exchange. Capricorn Group issued notes for BWP128.5 million (N$171 million) under the Botswana listed programme to create a natural currency hedge against existing pula assets. No notes have been issued yet under the programme approved by the Namibian Stock Exchange.

The group also obtained a N$650 million five-year preference share facility from a Namibian financial institution. This was mainly to fund the Entrepo acquisition and related funding. Read more in note 26 of the annual financial statements.

Capital remains well above minimum requirements	The group remains well capitalised with its total risk-based capital adequacy ratio of 14.9% (June 2018: 15.3%). This is well above the minimum regulatory capital requirement of 10.0%. The implementation roadmap of Basel III in Namibia has been communicated and is a key priority of Bank Windhoek. Bank Windhoek expects to be well above the required ratios for Basel III when it becomes effective in 2023. The Global Credit Ratings Company affirmed the group's and Bank Windhoek Limited's credit ratings of AA(NA) with a stable outlook during November 2018. The rating was based on adequate capitalisation, growing earnings, adequate funding and liquidity of the group. The rating also recognised the group's strong and diverse competitive position, supported by a large market share in Namibia.

Financial outcomes

Return on equity	Headline earnings per share	Profit after tax
16.3% (2018: 17.3%)	**+14.9%** to 181.5 cents (2018: 157.9 cents)	**+8.7%** to N$1,015 million (2018: N$934 million)

FINANCIAL DIRECTOR'S REVIEW continued

Strategic choices to invest

The Capricorn Group has made a number of investments in recent years, which included the expansion of the group beyond the borders of Namibia to Botswana and Zambia, an acquisition of a 55% interest in Entrepo, an exceptionally well-run finance business in Namibia, and an investment in Nimbus, which has a 51.4% shareholding in Paratus Namibia.

The investment in Nimbus was the start of the expansion outside financial services with a specific focus on the telecommunications sector given the convergence between financial services and telecommunications and the exponential growth in the demand for data.

On 1 July 2019, the group concluded a 30% acquisition in Paratus Group Holdings Limited. Paratus Group Holdings and its subsidiaries and associates operate in 24 African countries, the most significant of which are Angola, Namibia, Zambia and Botswana. In line with the Capricorn Group's strategy to be a regional competitor, Paratus has demonstrated a successful regional expansion and has an aggressive growth strategy to further expand its infrastructure footprint across the continent. It is the only information and communication technology company that can provide redundancy on both the West Africa Cable System (WACS) and the Eastern African Submarine Cable System (EASSY) under one single autonomous system number that does not run through South Africa.

Dividend declaration

A final dividend of 36 cents per ordinary share was declared on 20 August 2019 for the year ended 30 June 2019 (2018: 30 cents). Considering the interim dividend of 30 cents per share, this represents a total dividend of 66 cents per ordinary share (2018: 60 cents per share). The group's dividend policy remains unchanged with a cover ratio of three times.

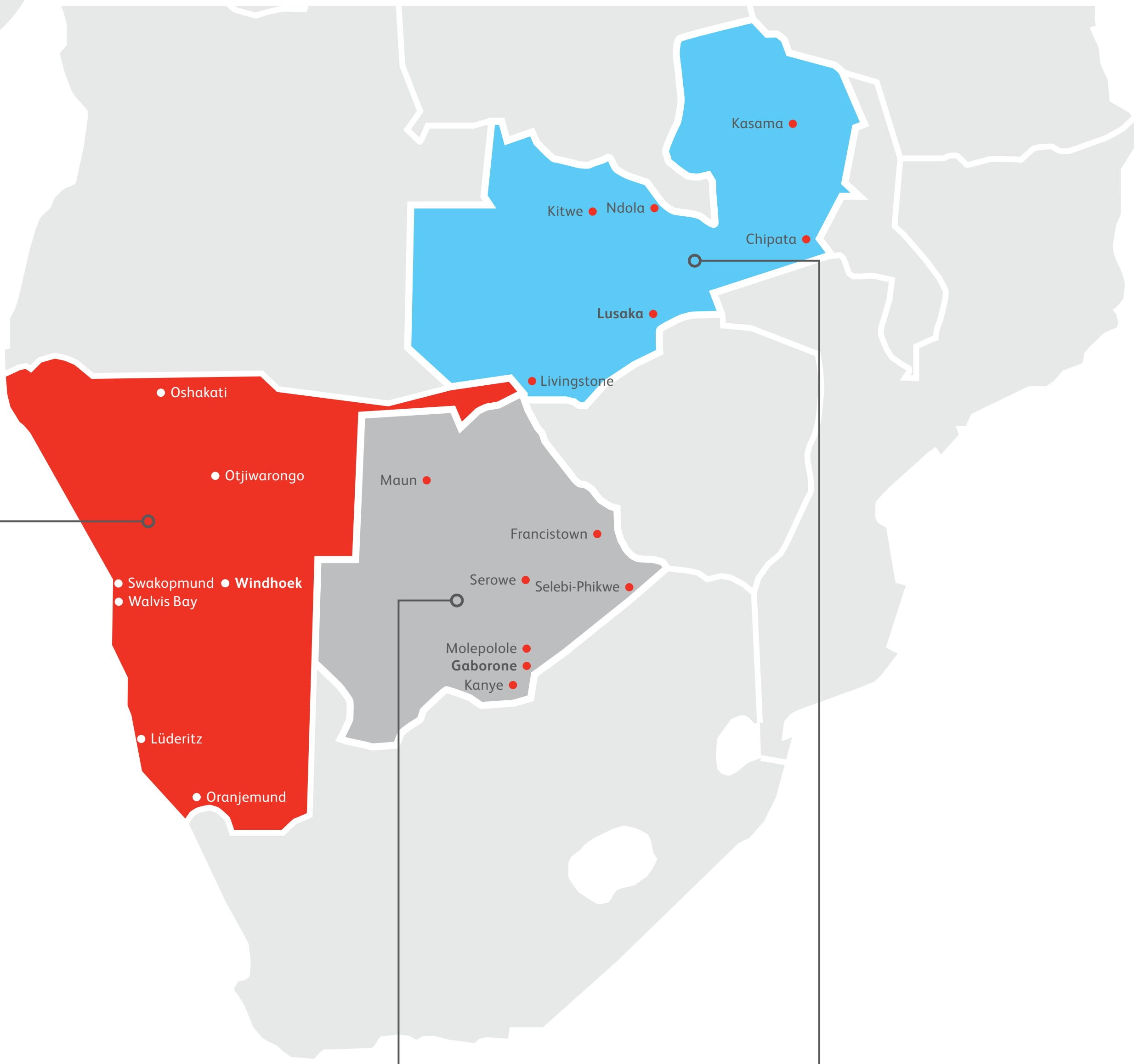
Jaco Esterhuyse
Financial director

I AM
ZAMBIAN

The mighty Victoria Falls plummets with strength and purpose, granting us understanding of our own significance. In our country, diversity is our strength. We preserve our multifaceted traditions through ceremonies and cultural festivals, holding dear our devotion to the progress of all Zambians. We focus on potential, igniting and supporting opportunities to connect, grow and build our people.

STRATEGIC LANDSCAPE AND MATERIAL MATTERS

OUR OPERATING CONTEXT INFORMS THE GROUP'S STRATEGIC LANDSCAPE



Namibia

1,635
Permanent employees

2,514,000
Population

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

N$1 = ZAR1
Currency conversion at 30 June 2019

Botswana

274
Permanent employees

2,396,129
Population

Botswana pula (BWP)
Currency

BWP1 = N$1.33
Currency conversion at 30 June 2019

Zambia

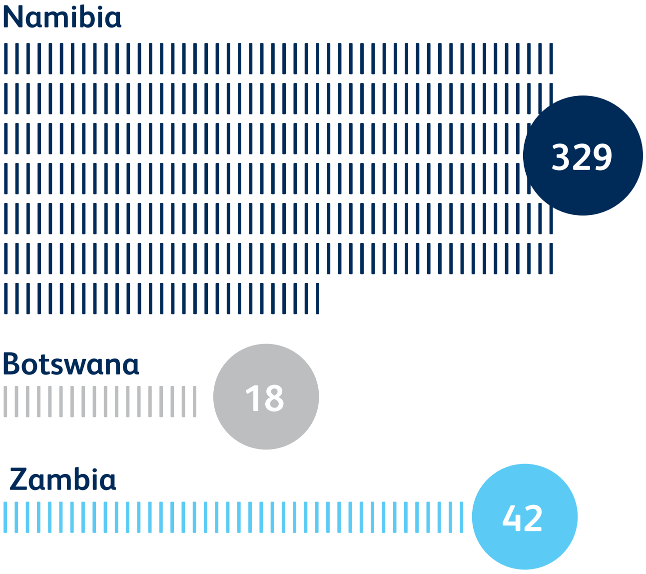
324
Permanent employees

17,609,178
Population

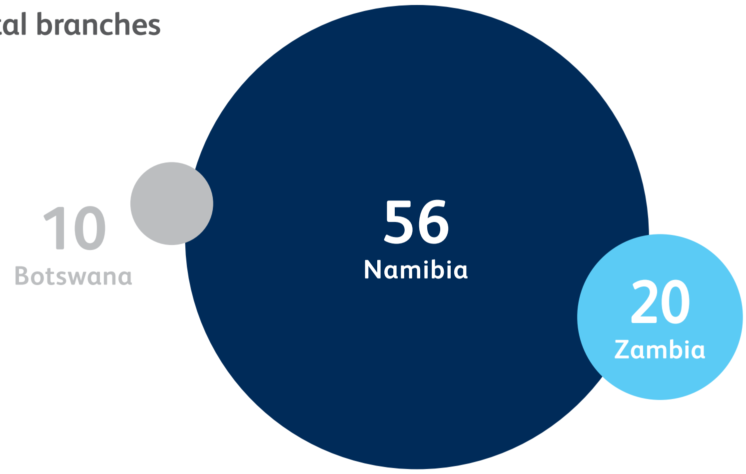
Zambian kwacha (ZMW)
Currency

ZMW1 = N$1.09
Currency conversion at 30 June 2019

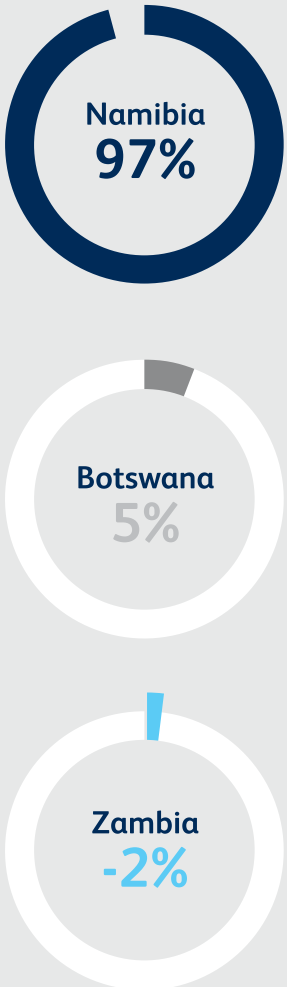
Total ATMs and Cash Express machines



Total branches



Contribution to net profit after tax



Expected GDP growth for 2019

-1.5%	3.9%	2.0%
Namibia	Botswana	Zambia

OUR OPERATING CONTEXT INFORMS THE GROUP'S STRATEGIC LANDSCAPE continued

Key messages from this chapter

- Namibia is in a recession, Botswana is improving its business climate, and Zambia is losing momentum.
- Our four strategic choices guide us towards long-term thinking in this context and keep us focused on operational excellence to win.
- Our eight material matters ensure that we keep those aspects that enable us to create sustainable value, top of mind.

Namibia

Salient features	Potential impact for Capricorn Group
The Namibian economy is under severe pressure, and growth prospects remain sluggish. This translates into low levels of investment, low employment, reduced household consumption and an increase in non-performing loans in the Namibian banking sector.	Economic conditions significantly impacted customer affordability and resulted in a material increase in non-performing loans at Bank Windhoek. Reduced investment activity, a material price correction in the housing market and a significant decrease in demand for vehicle and asset finance, resulted in the demand for credit decreasing to the lowest levels ever experienced in Namibia. The bank is also being more cautious in extending additional and new credit. The subdued business activity impacts new customer acquisition and growth, resulting an increased pressure on non-interest income.
Policy uncertainty is affecting investor confidence, resulting in lower capital investment.	Banks typically experience lower levels of investment and lower demand for credit, which leads to lower levels of business activity impacting income. This may result in a potential increase in cost of funding.
The upcoming general elections might increase uncertainty and encourage activism around issues such as land redistribution and the demand for affordable housing.	This will further affect business and consumer confidence and increase the need for corporate social responsibility (CSR) and stakeholder engagement.

The Namibian economy is still in recession. This is evident from indicators such as negative GDP growth (-2% in the first quarter of 2019), severe shrinkage in the sales of vehicles, slow credit growth and a hard-hit construction sector in conjunction with a sharp slowdown in the property market.

There are a number of factors that have been casting long shadows over the economy for the last three or more years:

- Commodity prices such as oil and base metals dropped precipitously about three to four years ago with no meaningful recovery since. This has cut spending power in the region sharply.
- Global and regional trade slowed. This has negative implications for the Southern African Customs Union revenue.
- Global economic growth remained lacklustre against an uncertain political backdrop. Brexit is dragging along messily and inconclusively, and the "trade and tech war" is heating up.
- The Chinese domestic economy is cooling, which dampens import demand from the rest of the world. For instance, car sales in that market are down 14%.
- The extreme drought in the country is taking a heavy toll on the agricultural sector.
- The general economic slowdown puts the revenue of the Namibian government under severe pressure. This forced fiscal consolidation that dampened spending, which rippled through the economy.
- Consumer, business and investor confidence is further eroded in a climate of political and policy uncertainty.

Initially, it seemed that we would be over the worst in 2019/20 and that an upswing would be underway. However, it now appears that economic growth will be barely positive, if at all. Most of the factors mentioned above are not showing signs of dissipating.

Globally, regionally and domestically, we are entering a phase, once again, where growth expectations are being lowered. Analysts, commentators and policymakers are cutting their growth forecasts. For instance, the Bank of Namibia, the International Monetary Fund, the Organisation for Economic Co-operation and Development (OECD) and the South African Reserve Bank are expecting lower rather than higher economic growth going forward.

In this environment, it is not surprising that fears of disinflation or even deflation are more prevalent than fears of inflation. In Namibia, we expect inflation to average 4.5% to 5.5% for the foreseeable future, as is the case in South Africa. Food, oil and the exchange rate remain volatile drivers of inflation.

The Bank of Namibia introduced new regulations to limit the amount an individual can borrow. These include the debt-service-to-income ratio as an addition to the loan-to-value ratio, as well as adjustments to the Credit Agreements Act, 75 of 1980.

Although NPLs remained below the 4% target of the Bank of Namibia at year-end, further increases will be a threat to banks' performance. The Bank of Namibia implemented credit bureau regulations to give commercial banks access to viewing consumers' exposure and assist in affordability assessments before providing credit.

Growth in vehicle and asset finance accounts continues to decline due to government expenditure cuts on capital goods. Tighter credit criteria and changes in regulatory policy, which requires a 10% deposit on a vehicle loan, contributed to lower growth.

Botswana

Salient features	Potential impact for Capricorn Group
Botswana's GDP growth remains volatile due to large swings in the performance of the mining sector. The country remains dependent on a single commodity: diamonds. This makes the economy vulnerable to any downturn in diamond prices.	Bank Gaborone's exposure to diamond mining is limited. However, doing business in the mining sector is seen as an opportunity as the outlook for diamond, coal, gold and copper mining is positive over the medium term. Awarding of new licences and investments by Australian companies add to the attractiveness of the sector.
Botswana was recently designated by the Financial Action Task Force (FATF) as a country of high risk for money laundering and terrorism financing. This comes despite government efforts to combat money laundering and its commitment to streamline policies and regulations to improve the business climate for private sector development and to attract foreign investment.	The lack of controls on terrorism financing and money laundering poses reputational risk and could affect investor confidence in the banking sector. It also puts Bank Gaborone's correspondent bank relationships at risk.
The Bank of Botswana reduced the benchmark policy rate to 5% in March 2019 in response to weak economic activity and low inflation.	This is an attempt to promote investment growth and stimulate credit growth. It is, unfortunately, having the opposite effect as liquid assets are invested outside Botswana as investors seek higher money and capital market yields. This results in upward pressure on cost of funds, which, combined with lower lending rates, reduced the interest margins of banks.
The use of mobile and non-traditional banking services is increasing. Botswana has high levels of cellphone banking penetration. Botswana banks also have a model of so-called learner branches, with increased self-service access points inside and outside the branch for its clients.	Cellphone banking is driving transactional income growth for banks.
The outcome of the general elections at the end of 2019 might have an impact on political stability.	Instability might negatively affect the performance of the banking sector in Botswana.

OUR OPERATING CONTEXT INFORMS THE GROUP'S STRATEGIC LANDSCAPE continued

The Botswana economy showed marginal improvement over the reporting period, with GDP growth at 4.5%, significantly higher than the previous year at 2.9%. Although the country continued to face low levels of economic growth, there are good prospects of recovery for the next reporting period based on the strong performance of the mining sector, as well as increased government capital expenditure. All sectors, apart from trade and water and electricity, recorded increased rates of growth when compared to the previous year. The mining sector experienced the most significant increase, registering a growth rate of 7.4% in 2018 compared to -11.1% in 2017. The steady increases in annual bank credit over 2018/2019 are also an indication of the improved business environment.

The bank rate remained at 5% and is expected to be maintained as such for the rest of the 2019 calendar year. Inflation as at June 2019 was recorded as 2.8%; below the lower boundary of the Bank of Botswana's target range of 3–6%.

The European Union blacklisted Botswana alongside 22 other countries for money laundering-related deficiencies in February 2019, over and above the preceding grey listing of Botswana by the Financial Action Task Force (FAFT) in October 2018. This has led to an increase in legislation aimed at improving mechanisms to manage anti-money laundering and financing of terrorism efforts in the country.

Zambia

Salient features	Potential impact for Capricorn Group
Large fiscal deficits and rising debt service costs have resulted in domestic expenditure arrears, taking a toll on growth.	Banks may start experiencing an increase in non-performing loans (NPLs) and tightening liquidity conditions. Zambia has seen an improvement in the NPL ratio the last 12 months in the sector. Interest rates have been relatively stable until May 2019 when the Bank of Zambia policy rate was revised upwards by 50bps. If the book deteriorates, IFRS 9 provisions will increase, which will also erode the capital base of Cavmont Bank and ultimately the earnings of the group. The sovereign rating downgrade will further put pressure on foreign direct investment flows and the cost of raising international third-party credit lines. This could increase the cost of available funding and reduce the subsequent profitability of banks. A further impact of this is increased IFRS 9 impairment provisions on government securities, which could be significant for Cavmont Bank and the group.
GDP growth is losing pace on the back of lower agricultural production, mining output and constrained electricity production.	Pressure on consumer spending will affect the rate of deposits and transaction volumes for banks. Forex trading will be impacted by mining output as mines attract more than 80% of foreign inflows. The further impact on Cavmont Bank will be a lack of growth in targeted sectors such as retail and wholesale trading, which is a key sector for Cavmont Bank.

Zambia's GDP is forecast at between 2% and 3%, which is below the global growth rate of 3.6%. With GDP growth expected to slow and inflation rising, Zambia's Central Bank raised its key interest rate, the Bank Policy Rate, for the first time since November 2015 from 9.75% to 10.25%. The impact of the drought on agricultural production and the resultant increase in food prices, combined with a volatile currency, have put the country on the back foot in terms of growth.

In the financial sector, the overall performance and condition of banking institutions remain satisfactory, premised on satisfactory capital adequacy positions, earnings performance and liquidity positions. However, asset quality is a concern due to the high level of NPLs.

The electricity deficit is expected to negatively impact productivity and ultimately put a strain on industries, with reduced output.

The recent implementation of structural and legal reforms should help to retain a level of stability. Macroeconomic policies continue to emphasise fiscal consolidation, prudence and the curtailment of avoidable expenditure.

The appointment of a new finance minister is expected to improve market sentiment as he brings his wealth of experience in monitory policy to the fiscal side. In the medium to long term, we expect a reversal of the recent downward trend in economic fundamentals and sentiments. As we head towards elections in the next two years, we expect the government to put huge projects in motion to stimulate economic growth.

OUR FOUR STRATEGIC CHOICES

An important role of the Capricorn Group board is to consider, evaluate and agree on our strategy, given the evolving operating contexts in Namibia, Botswana and Zambia. The board considers our purpose, our long-term vision and our progress in implementing our strategy. Based on the board's assessment of the material risks and opportunities the group anticipates, the directors confirm or adjust our strategic choices, as these direct the executive team's decisions about resource allocation and trade-offs.

At the annual AsOne2020 strategic review session, the executive team made presentations and engaged with the board on the following:

- the group's 2018–2020 strategic cycle, including our four strategic choices and our aspiration to win through operational excellence
- feedback from the managing directors of operating subsidiaries on their business environments, successes, challenges and strategy
- practical insight into strategy execution across the main platforms and impact with the implementation of the Agile and Six Sigma methodologies
- specific strategic actions relating to the turnaround of Cavmont Bank, including a change in our group oversight model, moving from strategic guidance to strategic control
- an increased focus during the final year of the current strategic cycle on the human and culture side of operational excellence implementation
- material matters impacting on our ability to create value in the short, medium and long term.

As mentioned in the chairman's statement, our three-year strategy cycle is in its last year. The preparation for a new cycle will include refinements and learnings from the current cycle, and no significant shifts are expected.

Our four strategic choices	Progress summary
Focus on building our foundation in Namibia, Zambia and Botswana in order to get to a position of market leadership.	We received good feedback from customers on service quality and increased our market share on assets. There are still gaps to close in our share of the deposits market.
Win in Namibia, Zambia and Botswana through operational excellence (lean, efficient, fast) and effective execution.	We are gaining traction in operational excellence through the cumulative effect of Agile delivery platforms, customer efficiency, culture development and Six Sigma deployment.
Compete in Namibia, Botswana and Zambia through strategic relationships and partnerships in insurtech, fintech, mobile and telco, and education.	Our recent acquisitions improved our competitive position. Further alliances are being explored.
In considering other African countries beyond 2020, target technological/borderless/cyber opportunities above bricks and mortar entry. Evaluate opportunities, whether cyber or bricks and mortar, on a case-by-case basis.	The acquisitions already completed and those currently being explored will position us to expand into other African countries beyond 2020.

Operational excellence traction and challenges included the following:

- Customer satisfaction, net promoter and ease-of-doing-business indicators were all trending upwards.
- Transactional account processing time continued to improve.
- At Bank Windhoek, digital channel adoption for EasyWallet and the mobile app continues to show promising growth rates. The uptake of internet banking has tapered off as the channel is maturing and being disrupted by the mobile app.
- Customer growth rates and market share for liabilities remained challenging.
- Deliberate employee engagement actions will continue to sow the seeds of the culture required for the effectiveness of operational excellence.

Strategy implementation and support

We believe that by successfully implementing the AsOne2020 strategy, we can build a sustainable business that makes a difference to broader society. Successful implementation relies on employees that understand the strategic choices, are clear about their role and contribution, and are incentivised to deliver on targets. We therefore have to ensure that our internal communication, rewards and recognition, employee value proposition, training initiatives and performance management are all aligned and support implementation. Our Connector Programme is at the heart of these elements.

Progress with the implementation of the four strategic choices is measured through board-approved indicators and targets. We aim to become operationally excellent and design business processes that lead to better customer experiences. Delivery against operational targets is reported to the board every quarter and includes growth in market share, customer performance metrics and business process improvements per bank.

The performance development process ensures that the group's organisational and employees' individual goals and objectives are aligned. We identify, evaluate and enhance the performance of employees through rewards and 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 and their skills and contribution.

Read more in the remuneration report from page 109.

Salient features of our performance management approach

The performance of employees against objectives (what) and against The Capricorn Way behaviours (how) are measured according to the 5Cs:

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

The implementation of the new performance management approach was supported by education and awareness sessions to familiarise all employees with the new descriptors and methodology. A prototype was sent out with examples, objectives, actions and measurable indicators. This helped business units to create new contracts based on a common understanding of the intent, content and outcomes of the 5Cs. This process was also automated during the year to enhance operational excellence and integrity.

OUR FOUR STRATEGIC CHOICES continued

Core elements of our human capital value proposition

Citizenship

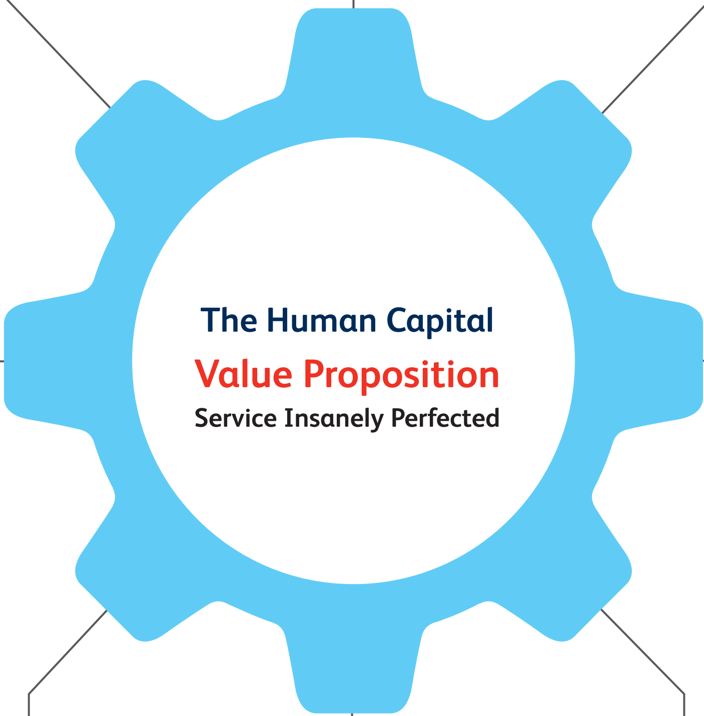
We are actively using The Capricorn Way to shape a new culture that encourages exceptional performance and promotes being Connectors of Positive Change. This is done by driving strategic people practices, simplifying the processes in the employee lifecycle and making them more relevant.

HR business partnering

We are trusted business advisers and change champions who focus on strategic priorities that contribute to growth and competitiveness. We drive The Capricorn Way in everything we do.

Remuneration

We shape our remuneration approach to ensure strategic alignment and competitiveness in the market.



Shared services

We aim to be a value-adding partner to group companies by delivering reliable services, improving efficiencies and creating higher levels of service. This includes budget management, data analysis, reporting, leave management and policy and framework design.

People development

We support professional development by providing employees with the opportunity to engage in self-development and learning. This transpires by aligning a learning culture, strategic direction, internal resources and partnerships.

Resourcing

We offer a complete end-to-end process from job planning to design, to ensure the right fit at the right time through a combination of traditional and unorthodox targeted sourcing methods.

Employee relations

We focus on employer and employee relations to ensure compliance with labour legislation and basic conditions of employment.

Employee wellness

Wellness addresses non-occupational illness, health and personal issues that negatively and/or positively affect the workplace in a holistic way. When our employees feel cared for, they will take exceptional care of their customers.

The human capital strategy is visualised using the analogy of a flywheel: when we deliver any part of the flywheel, it accelerates the entire loop. This captures the dynamic of implementing our strategy through consistent small results phased over time and aligned in the same direction.

The Capricorn Way and the Connector Programme

The Connector Programme was created with a twofold purpose:

- To embed the work done by the AsOne2020 strategy through The Capricorn Way, the brand values, brand proposition, purpose, customer propositions and frameworks.
- To provide a platform for the ongoing communication, engagement, interaction and embedding of the group's AsOne2020 strategic choices for the period 2018–2020.

The second Connector conference was held in March 2019. This year, 135 Connectors from four countries participated. The purpose of the conference was to encourage networking, expose Connectors to multiple perspectives and create awareness around the AsOne2020 strategy, risk and culture. Most importantly, it ignited the team spirit of Connectors across all entities through the "I am…" campaign. Specific "I am…" Connector activities were designed for the conference.

Elements that surfaced during the Connector activities were the commitment to embrace the thoughts and ideas of the Capricorn Group, the powerful impact of teamwork and the undeniable concept of strength through diversity.

Development initiatives and focus areas

Further initiatives to entrench The Capricorn Way, ensure effective strategy implementation and achieve operational excellence included the following:

We completed a leadership assessment for middle management. Individual plans for each assessed middle manager were developed, and a coach was assigned to each manager. A new management development programme for middle management, in partnership with the University of Stellenbosch Business School, was launched across all countries.

In the latest employee engagement survey, the Capricorn Group obtained a response rate of 87%, which is considered to be a very good response rate compared to the norm of 72%. Thirty-one per cent of employees are fully engaged, meaning they are highly committed employees and are prepared to do more than what is required.

From the survey, key focus areas were identified to drive increased engagement:

- Talent fit, including matching employees to roles or job assignments that enable them to use their strengths
- Employee voice, including encouraging a feedback culture where feedback is regarded as developmental and reinforces a culture of continuous conversations
- Leadership, including encouraging and developing inspirational leadership where leaders demonstrate The Capricorn Way

Based on these focus areas, action plans will be developed by each business unit.

Engaging with our stakeholders

Our stakeholders are those individuals or groups that are impacted by our business activities – and who have an interest in our success. Their relationships with the Capricorn Group – whether they form part of the group (for example employees) or have external roles (for example clients or service providers) – determine the intensity, nature and intervals of engagement. Effective engagement with stakeholders is a core element of our vision and purpose.

Our major stakeholder engagement events for the past year were guided by the 2018/2019 strategic stakeholder engagement plan that was developed, approved and shared with group entities to align with their operational engagement plans. The group plan supports the implementation of the AsOne2020 strategy. Initiatives are clearly linked to material matters or CSR themes. For each stakeholder group, we identify opportunities and desired outcomes, such as creating strong relationships around and awareness of our regional footprint and banking brand in all three territories.

Extensive stakeholder input was obtained during five months of brand research on the Capricorn Group and its subsidiary banks as part of our monolithic brand architecture journey.

Stakeholder engagement remains important because it:

- enables us 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, products and services that are aligned with 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

Our list of stakeholders is set out on page 2, and we provide more detail on specific interactions and engagements this year in the Group CEO's report from page 24 and the board sustainability and ethics committee report from page 117.

OUR EIGHT MATERIAL MATTERS

Whereas our four strategic choices respond directly to our operating context and direct our resource allocation and trade-offs, the group's material matters ensure that we keep those aspects that enable us to create sustainable value, top of mind. As with the strategy, the board plays a key role in identifying and testing assumptions and approving the material matters.

2016 Material matters were identified by a diverse internal team and included in the 2016 integrated annual report.

2017 The board and executive team reviewed the material matters in view of changes in the external environment, the group's risk profile, expanded footprint and evolving strategy. The adjusted list was approved and included in the 2017 integrated annual report.

2018 The 2017 material matters were tested with the Capricorn Group's external stakeholders for robustness, relevance and gaps. Feedback indicated that all matters were material to stakeholders with some shifts in emphasis between stakeholder groups. The board considered the stakeholder feedback and approved the 2018 material matters for inclusion in the integrated annual report.

2019

1. The reporting team reviewed the 2018 material matters and made recommendations for adjustments and emerging matters to be considered.
2. During the board's strategy review session held on 6 March 2019, members formally debated the matters that are material to the group's future growth and sustainability and reviewed the 2018 material matters, including recommendations by the reporting team. During the board discussion, new material matters were identified and it was agreed to get more input from the directors via a survey. Eight board members completed the electronic survey.
3. The results of the discussion and survey were analysed, ranked and combined into eight main material matters. The Group principal risk owners (GPROs) were then engaged to link each material matter to a principal risk and the relevant board committee.
4. In April, the material matters were discussed as part of Bank Windhoek's strategy session due to the bank's material size and impact on value creation.
5. In May, the list of material matters was formally submitted to the board audit, risk and compliance committee (BARC). This included a report by principal risk officers on mitigating actions.
6. The board discussed and approved the 2019 material matters for inclusion in the integrated report as recommended by the BARC in June.
7. In future, the material matters will form part of the relevant board committee agendas and subsequent reporting to the board. GPROs will develop specific strategies and implement specific actions to address the material matters.

Our 2019 material matters in summary

2019 material matters	High-level shifts from 2018 material matters
Ethical leadership, management and business	This is a new and now the highest-ranking material matter, which includes aspects of mitigating corruption and fraud.
Credit risk management and mitigating losses due to bad debt	There has been a shift in emphasis away from growth prospects to managing credit and liquidity risk.
Financial and cybercrime/cybersecurity	Financial crime has been separated from the ethical aspects with the emphasis on technology as an enabler.
Meeting customer needs and expectations	No change
Demand for specialist skills driving focused development, training and diversity	Supporting elements now include succession planning.
Responding to a changing regulatory and operating context	Supporting elements include socioeconomic issues, political instability and environmental and governance challenges.
Fintech, insurtech and evolving digital assets	No change
Enhancing and optimising management and operational systems	No change

Our material matters explained

In this section, we provide more detail on the material matters, including the stakeholder groups most affected, positively or negatively, by each. The risk report from page 84 contains specific detail on some of these matters. For example, in the risk report, we set out the material matters in relation to the principal risks and identify the board committees mandated to consider each.

Ethical leadership, management and business

Ethical leadership means setting the tone from the top. We believe in doing ethical business not just for the good of the group, but for the common good.

This matter is material as corruption in government and business is increasingly being exposed, with the realisation that some practices have potentially become entrenched in and accepted by some in our society. We want to contribute to eradicating corruption and fraud in government, civil society and business.

Capricorn Group's response and approach

We have created an ethical organisation where our stakeholders are motivated to support our values of being inspired, open and dedicated. Our ethical culture is directed by the ethics strategy, our risk culture which is grounded in The Capricorn Way, the Group Code of Conduct and Ethics Policy and the qualitative risk appetite statement on ethical conduct, which are all aimed at the proactive and holistic management of ethics risk.

The Group board sustainability and ethics committee (BSEC) is an independent and objective body to assist the board in ensuring that the Capricorn Group remains a good corporate citizen. We implement our ethics strategy and reporting framework according to four focus areas:

- Leadership commitment to ethical behaviour
- Setting ethical standards
- Employee ethics awareness
- Managing ethics risks

The Group Code of Ethics and Conduct Policy serves as the moral foundation for all other rules and policies. The Code describes the desired ethical behaviour of non-executives, including their fiduciary duties, conflicts of interest and duties to display reasonable skill and care.

The group conducts an ethics risk assessment as part of its ethics programme. The assessment is based on an anonymous survey conducted throughout the group. The survey informs an understanding of the ethical conduct of employees and assesses whether the climate is conducive to ethical behaviour.

Gaps identified in the assessment are addressed through management actions overseen by the subsidiary executive management teams and ultimately, the BSEC. Internal and external mechanisms are available to report concerns about unethical or unlawful behaviour.

The Group board, through the approved qualitative risk appetite statement, is explicit in its zero tolerance of unethical conduct. Boards of group legal entities and employees are made aware of their obligations to manage all types of risk, including ethics risk through our practical and case study-oriented Risk Culture Building programme. Our risk culture is grounded in The Capricorn Way, which espouses our values and the behaviours that we display in the best interest of the group and our stakeholders.

Read more about this material matter in the governance report from page 69 and the risk report from page 86.

Strategic choices related to this material matter:

- BUILDING OUR FOUNDATION
- WIN THROUGH OPERATIONAL EXCELLENCE

Stakeholder groups most significantly affected by this material matter:

- EMPLOYEES
- SHAREHOLDERS
- CUSTOMERS
- GOVERNMENT AND REGULATORS

Credit risk management and mitigating losses due to bad debt

The economic recession in Namibia, regional economic stagnation, the drought, low business confidence and rising unemployment are all factors leading to a substantial increase in credit risk and consequently a potential rise in non-performing loans and losses due to bad debt. According to the Bank of Namibia, the asset quality of the banking industry deteriorated since 2017. The deterioration in non-performing loans (NPLs) and overdue loans persisted, despite a dampened appetite for credit by consumers. In Namibia, the industry NPLs increased by 39% to N$3.7 billion in March 2019, up from the N$2.7 billion recorded in March 2018. NPLs and overdue loans increased, with all loan product categories represented in the increase in NPLs.

We expect further deterioration in key economic indicators, which could potentially result in a downgrade in credit ratings for the countries in the region. This could lead to a further decline in foreign direct investment, weakening currencies and increased cost of funding.

Capricorn Group's response and approach

The group has always been prudent in its lending practices, and we pride ourselves on the quality of the advances book and strong underlying collateral value. This remains a key focus and receives increasing attention during these challenging economic times.

We are taking a more proactive and forward-looking approach to credit risk management. This entails the early identification of accounts exposed to or representing increased credit risk for timely remedial action. Credit teams are pre-emptively engaging customers that are showing signs of distress.

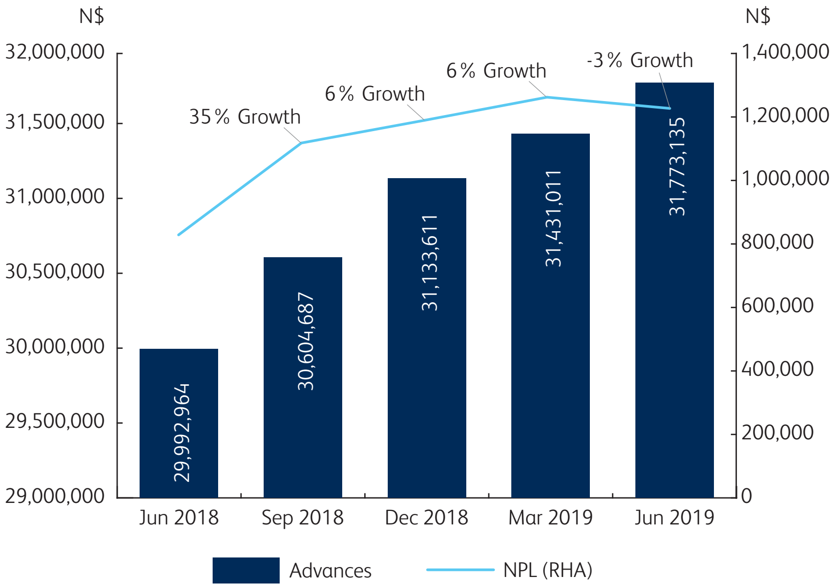
Restructuring and consolidation efforts in Bank Windhoek for non-performing clients are yielding positive results.

The agricultural sector is expected to be hit hardest by the current drought, following five years of below-average rainfall. An extensive exposure assessment was performed to determine potential financial impacts under different scenarios. A task force was established to discuss potential next steps for the group. This includes restructuring facilities or changing the frequency of instalments.

NPLs started to flatten towards the end of the financial year, supported by an improvement in early arrears roll rates.

The graph below illustrates Bank Windhoek's NPL and advances.

NPL and advances



Read more about credit and liquidity in the risk report from page 86. Detail about NPLs is provided in the financial director's review from page 32.

Strategic choices related to this material matter:

BUILDING OUR FOUNDATION

WIN THROUGH OPERATIONAL EXCELLENCE

Stakeholder groups most significantly affected by this material matter:

CUSTOMERS

GOVERNMENT AND REGULATORS

SHAREHOLDERS

Financial and cybercrime/cybersecurity

Cybercrime is a growing threat internationally. Continuous assessment, monitoring and security improvements are required to protect data and assets. The scale and complexity of financial and cybercrime are increasing and can lead to reputational damage and a loss of income. On an industry level, it jeopardises the stability and security of the entire financial services system.

Effective controls against money laundering and the financing of terrorism require cooperation between stakeholders, appropriate tools to investigate these crimes and quality data. On a global scale, the Financial Action Task Force (FATF) tests anti-money laundering (AML) capabilities per country against a set of standards.

Last year Botswana was reported by the FATF due to AML deficiencies. Since then, the European Union has blacklisted Botswana among 22 other countries for money-laundering-related deficiencies. As a result of this, Bank Gaborone's correspondent bank relationships are at risk, with international transactions increasingly being scrutinised.

Namibia is scheduled to undergo an evaluation by the FATF and the Eastern and Southern African Anti Money Laundering Group (ESAAMLG) in June 2020. A national committee has been established to ensure that Namibia receives a positive rating on technical and effectiveness compliance.

According to the Namibian Financial Intelligence Centre (FIC), banks report the highest number of suspicious transactions (other bodies include unit trust schemes, lending institutions and stockbrokers). Among the offences reported up to April 2019, tax evasion ranked highest in number, followed by fraud, which ranked highest in monetary value. ATM fraud ranked as one of the lowest offences in Namibia.

Capricorn Group's response and approach

Cybercrime is the number one priority for Capricorn Group's IT function. Systems and infrastructure are designed and implemented with the required controls and technology to ensure that these are protected against potential cybercrime threats. We use in-house and external experts and service providers to ensure we are up to date with the latest cybercrime threats. Defences are continuously updated to address any potential weaknesses or changes in the technology landscape. In addition, we do regular internal and external scans and simulate attacks on our systems and infrastructure to ensure that they are optimal in protecting the group.

The impact of financial crime is mitigated by a collective and collaborative approach by the industry and relevant stakeholders. We believe that sharing data and centralising resources are the most effective ways to identify risk and develop interventions that proactively prevent either systemic or unilateral threats. The group actively supports government law enforcement entities during investigations of financial crime. Employees continuously received training on AML measures.

We continuously initiate campaigns aimed at employees and customers that help to improve fraud awareness and empower people with the knowledge to recognise risk and prevent losses. Internally, systems, device and data protection measures are continually updated, and incident response and support mechanisms are used to reduce the impact of the risk and to increase awareness of information security. Risk practitioners collaborate across subsidiaries to share knowledge and practices.

Read more about cybersecurity in the risk report from page 86.

Strategic choices related to this material matter:

- BUILDING OUR FOUNDATION
- WIN THROUGH OPERATIONAL EXCELLENCE

Stakeholder groups most significantly affected by this material matter:

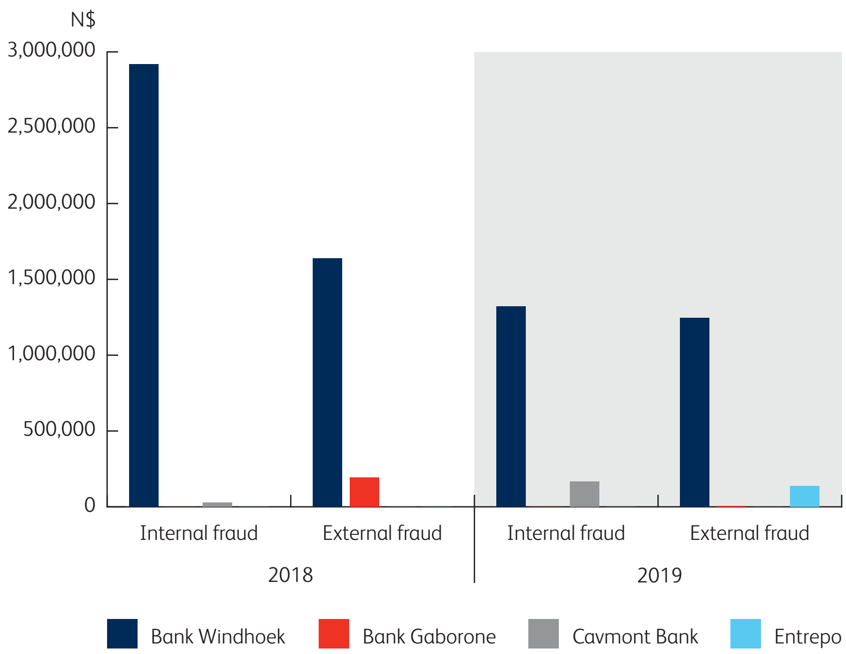
- CUSTOMERS
- GOVERNMENT AND REGULATORS
- SHAREHOLDERS

Financial and cybercrime/cybersecurity continued

Bank Windhoek also implemented a comprehensive management action plan to ensure that clients are compliant with the Financial Intelligence Act 13, of 2012, especially in respect of enhanced due diligence for high-risk clients. The bank is continually engaging the FIC on this matter. Risk is mitigated through a combination of system enhancements and manual interventions.

Indicator	Group	Trend
Losses due to financial crime	N$2.8 million (2018: N$6.2 million)	▲

Internal and external fraud



Meeting customer needs and expectations

Customer centricity has become a key competency for banks. This entails understanding and meeting the needs of existing, emerging and new-generation customers, and being able to offer appropriate value propositions.

The availability and use of data management, statistics and analytical modelling are essential to be able to respond to these changing customer trends.

Capricorn Group's response and approach

Bank Windhoek won the Centre for Economic and Leadership Development's Global Female Impact Excellence Award for the Best Bank in the Gender-Sensitive Product category. The award recognises our Women in Business financial solution, which demonstrates our commitment to investing in women-owned and women-led businesses. Features are being enhanced to drive further success in this offering.

The launch of the Bank Windhoek credit cards in 2018 helped the bank to close a gap in its product offering. With certain unique features such as interest-free periods on all transactions and a responsible approach, the bank has enriched its offerings in key target segments.

Leveraging the capability delivered at Bank Windhoek, Bank Gaborone can offer credit cards to acquire and retain their key segments with this offering.

An outbound contact centre capability at Bank Windhoek was introduced to complement the inbound call facility, which has greatly added to supporting the business to drive sales and activations of channels like e-statements and cellphone banking.

The HeyJude App was successfully launched in Namibia to Bank Windhoek customers in May 2019. This was a first-of-its-kind offering in the Namibian banking environment where a unique, value-added digital service is being coupled with our banking offering to cement our brand promise of Connectors of Positive Change. The app serves as a digital personal assistant or concierge service that sources products and services, negotiates discounts and arranges payment and delivery on a customer's behalf.

Bank Gaborone continues to develop new offerings in response to customer needs. After identifying and testing the opportunity to offer transactional church accounts, this has now been formalised into a bundled account that makes the accounting, reconciliation and auditing of accounts easier for churches. Churches will qualify for preferential rates and will have the opportunity to collaborate with Bank Gaborone on CSR initiatives.

Bank Gaborone's Lebandla account offers a group savings option aimed at clubs, stokvels, burial societies or groups of people wanting to save towards a common goal. The account is further designed to provide security in that no single individual is in control of the funds. Funeral cover is offered as part of the Lebandla account benefits.

Bank Gaborone also ventured into a point-of-sale (POS) device offering. The POS payment solution offers convenience and flexibility in that customers can use cards as an alternative to cash, especially in areas where the bank does not have ATMs.

Read more about customer engagements in the Group CEO's report from page 24.

Strategic choices related to this material matter:

- BUILDING OUR FOUNDATION
- WIN THROUGH OPERATIONAL EXCELLENCE

Stakeholder groups most significantly affected by this material matter:

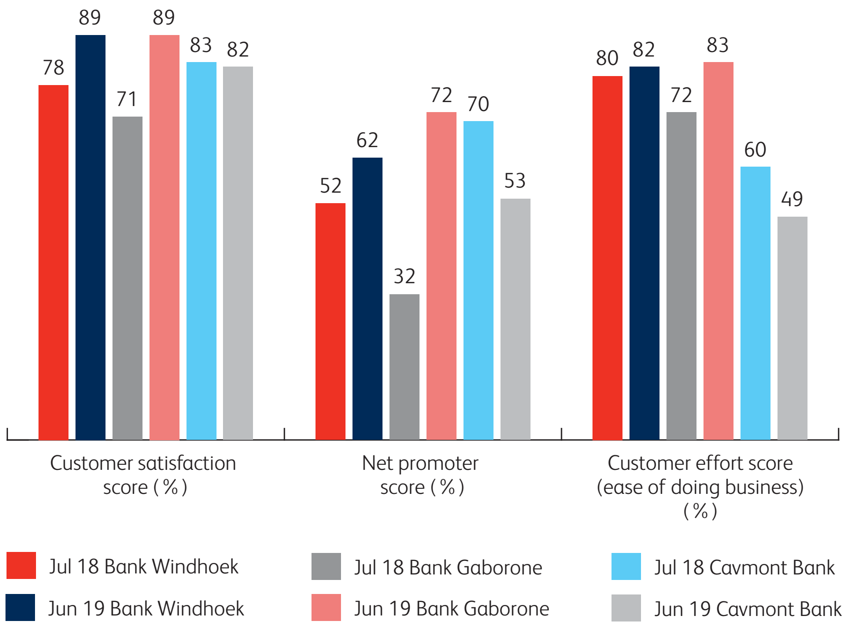
- CUSTOMERS
- GOVERNMENT AND REGULATORS
- SHAREHOLDERS
- COMMUNITIES

Meeting customer needs and expectations continued

"Relying solely on algorithms and computer capability will not assist us to fully understand evolving customer habits and lifestyle expectations regarding banking. We need to ensure both qualitative and quantitative approaches." – Capricorn Group board member

Data for three customer satisfaction indicators per bank were measured over a 12-month period:

Customer satisfaction ratings



The sharp improvement in both customer satisfaction and net promoter score for Bank Windhoek and Bank Gaborone was mainly driven by the introduction of the Capricorn Group Contact Centre as an additional touchpoint with very high call volumes driving up the response rate. These scores improved slightly in branches as well, but are significantly lower in comparison to the contact centre. The Bank Windhoek Net Promoter Score improvement was further driven by the media consumption survey that was done with a very large market sample of over 12,000 responses, which is much more representative of the customer base in comparison with the samples used back in 2018 when the first customer satisfaction, net promoter score and customer effort score were determined through the annual DSQ survey with samples less than 1,000 respondents for each business entity. At the same time, interactive customer measurement was introduced across all three entities, which provided closer insights enabling the business entities to respond faster on customer pain points.

All customer experience scores for Cavmont Bank decreased due to the current challenging business operating environment having a negative impact for both customers and staff morale.

Customer effort improvement is much lower than customer satisfaction. Net promoter score as customers still experience some difficulties in dealing with all entities, mainly driven by some cumbersome processes and procedures, especially the onboarding time of new customers in branches. This is a specific focus of the Nawa process improvement project being undertaken at all banks currently – which should see improvements in these scores.

Demand for specialist skills driving focused development, training and diversity

According to a discussion paper by McKinsey & Company in 2018, a skills shift followed the adoption of automation and artificial intelligence. The need for technological, social and emotional skills is rising as the demand for physical and manual skills decline. An inadequately or inappropriately skilled workforce is a major constraint to businesses.

The need for future-oriented skills development, including the fundamental reform of education systems and labour policies, remains critical. 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 the Capricorn Group include:

- the ability to attract and retain key talent
- the need to develop a pipeline of leaders for succession at board and executive and senior management level
- a focus on the development of the "critical layer" to address the significant gap between middle and executive management
- a lack of diversity (whether real or perceived) in terms of gender, ethnicity and age at executive management and board level

Capricorn Group's response and approach

Internal and external bursary holders study at the University of Namibia and the Namibia University of Science and Technology (NUST) with highly specialist programmes provided by South African universities. Our internship programme focuses on business requirements and serves as another skills deficit resource pool for employment.

We partnered with Stellenbosch University for tailor-made senior management development and management development programmes. Sixty middle managers and 30 senior leaders are currently undergoing training.

We partnered with the internationally accredited Retail Banking Academy in London for the certified banker qualification, with 26 employees enrolled. The programme consists of three phases:

- Retail banking I is designed to introduce the theoretical and practical core competencies that are required for success in a retail banking organisation.
- Retail banking II focuses on the issues that are encountered when leading people and departments.
- Retail banking III focuses on the issues that are encountered when you are leading people and departments. The aim is to develop and enhance the capabilities required to run retail banking strategic business units for best results.

Bank Windhoek also partnered with NUST and B360 Education Partnerships, a Swiss-based non-governmental organisation. NUST graduates are hosted for one-week career development workshops. Aimed at coaching graduates on how to prepare themselves for possible employment in

Read more about human capital initiatives earlier in this section and the Group chairman's message from page 6.

Strategic choices related to this material matter:

- BUILDING OUR FOUNDATION
- WIN THROUGH OPERATIONAL EXCELLENCE

Stakeholder groups most significantly affected by this material matter:

- EMPLOYEES
- COMMUNITIES
- SHAREHOLDERS

Demand for specialist skills driving focused development, training and diversity continued

a highly competitive job environment, the workshops expose the students to skills required to prepare for interviews, to write a curriculum vitae and other business skills.

Bank Windhoek keeps abreast of industry challenges in terms of scarce skills. Through the recent scarce skills survey conducted within the financial sector in Namibia, we identified various challenges. In response to the findings, we have introduced a two-year graduate training programme that exposes graduates to practical working environments. Once we are confident that our process is effective, the graduates will be employed to close the skills gap. Plans to extend the programme beyond our own bursars are underway. We also have a pipeline of external candidates for possible employment.

At Bank Gaborone, we introduced an 18-month graduate training programme to reduce the skills gap faced by the bank while helping to reduce the level of unemployment in Botswana, especially among local graduates from institutions of tertiary education. Bank Gaborone is committed to identifying graduate talent and connecting them to opportunities to gain practical experience in the financial industry. By doing so, they should become more employable by our bank and other corporate players in the country's financial sector.

The composition of the NeXtGen board was a significant step towards creating a pipeline for succession, with a high level of diversity achieved.

The group's diversity was also acknowledged in the Capricorn Group's rating by the Namibian Preferential Procurement Corporation in January 2019. The group achieved 98.34% (exceptional equitable economic empowerment level contributor status) on its scorecard.

Capricorn Group employees are employed by the entities as set out in the diagram on page 15. The most substantial portion of employees is permanently employed. The following table summarises the group's employee profile as at 30 June 2019.

Capricorn Group employee profile	Permanent employees	% male	% female	% permanent of total employees	% contract	Total 2019	Total 2018
Namibia	1,691	37	63	98	2	**1,729**	1,678
Botswana	295	33	67	93	7	**317**	289
Capricorn SA	7	57	43	7	70	**23**	29
Zambia	308	53	47	97	3	**317**	324
Total and average %	2,301	45	55	74	21	**2,386**	2,168

Indicator	Group	Trend
Investment in training	N$23.6 million (2018: N$18.5 million)	▲

Demand for specialist skills driving focused development, training and diversity continued

Group indicator	2019	2018
Female permanent employees (%)	**64%**	63%
Racially disadvantaged permanent employees (%)	**78%**	78%
Women in senior management (%)	**32%**	30%
Women in middle management (%)	**60%**	60%
Racially disadvantaged in senior management (%)	**34%**	30%
Racially disadvantaged in middle management (%)	**64%**	61%
Non-Namibian workforce (%)	**2%**	2%
New employees age <24 (%)	**15%**	28%
New employees age 25–35 (%)	**62%**	52%
New employees age 36–45 (%)	**15%**	11%
New employees age 46–55 (%)	**8%**	9%
Staff turnover annualised (%)	**5%**	6%
Training hours Bank Windhoek, CAM and Namib Bou	**2,248 hours**	2,600 hours
Training hours Bank Gaborone	**3,168 hours**	3,304 hours
Training hours Cavmont Bank	**3,100 hours**	400 hours

Responding to a changing regulatory and operating context

Financial services globally are exposed to an ever-increasing regulatory compliance burden. A significant portion of new regulation introduced in the Capricorn Group jurisdictions is influenced by extraterritorial pressures. Examples are Basel III, the Foreign Account Tax Compliance Act (FATCA), IFRS and Anti-Money Laundering regulation. Regulatory changes in the region are also influenced by local socio-political circumstances and government priorities. The expansion of operations into adjacent or different industries further increases the amount of regulation that the group must comply with.

Regulatory compliance can divert management attention and increase capacity needed to make changes to comply, thereby reducing the aptitude to pursue strategic objectives. It often tends to increase the size of risk, compliance and assurance functions which monitor, maintain and report on compliance. Regulatory compliance can introduce complexity and inefficiencies into ordinary business processes, which drive up cost and impact customers who do not always appreciate the value of regulations.

In addition to regulatory compliance matters, the regional economies are confronted with sustainability challenges, such as climate change, poverty, health issues and resource shortages (water, food and energy). In addressing these concerns, governments use regulation as an instrument to enable and encourage the necessary change. While sustainability issues may trigger regulatory responses, they also bring about new opportunities. The banking sector can play a vital role in accelerating the local markets' transition to a sustainable future.

There are early signs that government is addressing sustainability challenges which have been deepened by inconclusive legal and regulatory reforms. We welcome government's response to concerns raised by the private sector on the National Equitable Economic Empowerment Framework (NEEEF), in particular on the ownership pillar. The National Equitable Economic Empowerment Bill (NEEEB) will go a long way towards providing policy certainty. Government is also in the process of revising new investment legislation and has put the Namibia Investment Promotion Act on hold to accommodate broader inputs by the private sector. Unemployment, especially among the youth, and widespread retrenchments in the wholesale, retail and construction sectors remain of great concern.

In Namibia there have been several new government interventions, including the following:

- New tax proposals which, if implemented, will affect trusts and income from commercial activities of charitable, religious and educational institutions as well as the introduction of a dividends tax on dividends paid to residents.
- The Microlending Act, 7 of 2018 was introduced to promote responsible borrowing while protecting the rights of borrowers.
- Regulation 15 of the Long-Term Insurance Act and Regulation 28 of the Pension Funds Act Regulations were amended, requiring long-term insurance companies and pension funds operating in Namibia to invest 45% of their assets in Namibia compared to 35% previously.
- Implementation of the industry's regulatory and compliance projects such as PSD7 (Determination on the Efficiency of the National Payment System) will bring efficiency, safety and effective control of the domestic Electronic Fund Transfer components of the Namibian Payment system.

Read more in the Group CEO's report from page 24, the risk report from page 86 and the BSEC report from page 117

Strategic choices related to this material matter:

- BUILDING OUR FOUNDATION
- WIN THROUGH OPERATION EXCELLENCE
- COMPETE THROUGH STRATEGIC RELATIONSHIPS AND PARTNERSHIPS

Stakeholder groups most significantly affected by this material matter:

- CUSTOMERS
- GOVERNMENT AND REGULATORS
- SHAREHOLDERS

Responding to a changing regulatory and operating context continued

In Botswana, a high unemployment rate remains one of the key social issues. This is partly due to a skills mismatch in the market, as new graduates are unable to meet business requirements. Proposed amendments to the National Employment Act, 29 of 1982 is expected to assist in addressing the mismatch and achieving a greater level of employment.

Three national priority areas were identified in terms of the environment:

- Pollution prevention and control
- Sustainable use of natural and cultural resources
- Climate change and global warming

Botswana has partnered with the World Bank to develop a renewable energy strategy that will allow the country to be more independent in its energy consumption. The government has established the Energy Regulatory Authority to set out the rules for independent power production and to ensure that proper procedures are adhered to in financing renewable energy projects.

New regulatory changes include the requirement to register all trusts with the high court and the implementation of the Company Re-registration Act, 24 of 2018. Financial Intelligence Agency amendments were made, which increased the penalties and broadened the scope of AML issues covered.

In Zambia, the Bank of Zambia issued a prohibition against bank charges and fees that are deemed unwarranted. The new Employment Code Act, 3 of 2019 relates to contracts, entitlements and employment benefits, which affects Cavmont Bank.

Failure to comply with applicable rules and regulations can expose the group to penalties and reputational damage. The group remains optimistic that with regulatory change and within sustainability challenges there are opportunities to be exploited to our advantage. This requires a positive and proactive stance.

Capricorn Group's response and approach

In terms of regulatory changes, our Group Risk Internal Control and Assurance Framework follows a systematic approach to ensure that new regulations are identified in advance and that changes are proactively introduced. The purpose of our legislative review process is to identify emerging regulation in advance to ensure that the group can use every opportunity to influence and prepare for regulation.

Dedicated capacity was created to implement changes to systems and processes that are required by regulation and industry standards. In doing so we have simplified our change environment to better focus on strategic change.

An established risk and compliance framework ensures that our regulatory risk profile is reviewed and updated at least annually, or as and when new regulatory requirements are introduced.

We maintain good relations with all regulators as part of a deliberate stakeholder engagement strategy. This status has been maintained throughout the reporting period in all jurisdictions.

In relation to the operating environment Capricorn Group, as a corporate citizen, acts as a Connector of Positive Change in our operating context. Our operating context is reflected in the needs and concerns of our stakeholders. To be successful as a Connector of Positive Change it is necessary for the group to maintain good stakeholder relations which allow the group to sense and respond to stakeholder needs. These efforts illustrate how we respond to our operating context. Examples include:

- the proposed establishment of the Capricorn Foundation (refer to the Group chairman's message from page 6 and the BSEC report from page 117)
- Bank Windhoek issued Namibia's first green bond (refer to the Group CEO's report from page 24)
- we provided finance to assist with housing shortages in Namibia (refer to the Group CEO's report from page 24)
- Bank Gaborone launched the Diabetes Apple Project, and Bank Windhoek remains committed to the Cancer Apple Project (refer to the Group CEO's report from page 24 and the BSEC report from page 117)
- Cavmont Bank participated in the Smart Money Show to improve financial literacy (refer to the Group CEO's report from page 24)

Responding to a changing regulatory and operating context continued

In response to the Namibian government's state of emergency declaration, Bank Windhoek is exploring innovative ways to determine the exposure of commercial and communal farmers and mitigate the impact of loss of income on their financial obligations. The Bank Windhoek vehicle and asset finance team is offering bush equipment to enable the production of animal fodder, using encroached bush. Bush thinning helps to restore degraded farmland and increase agricultural productivity. There are currently 30 million hectares of Namibian farmland that are bush encroached according to the de-bushing advisory services of the Ministry of Agriculture, Water and Forestry.

Bank Windhoek also contributed N$500,000 to the Dare to Care initiative. This is aimed at assisting farmers in preparing their animals for market and saving their core breeding herds for when the rain returns.

"All regulated businesses have to contend with regulatory changes: realistic and unrealistic. We need to respond, but much more, we should anticipate and predict so that we can be proactive. We should also leverage changing regulatory landscapes as these are opportunities if we look for them." – Capricorn Group board member

Indicator	Group	Trend
Investment in CSR	N$25.5 million (2018: N$23.6 million)	▲

Fintech, insurtech and evolving digital assets

The banking sector is characterised by disruptive innovation from non-traditional competitors who use automation and digitisation to render some conventional offerings obsolete and to compete on price. These new players design flexible and dynamic solutions based on new financing platforms, open banking and cloud-based products and services.

Regulators around the world, including southern Africa, are keenly observing the managed roll-out of open banking in the UK, which started in January 2018. Open banking is a reform which obliges all UK-regulated banks to share customers' financial data (such as bank, credit card and savings statements) with authorised providers if customers give their banks permission to do so. The goal is to give consumers more choices by increasing competition between banks and fintech start-ups while ensuring secure and stable markets.

Capricorn Group's response and approach

Bank cheques have been phased out in Namibia, effective end June 2019. As such, Bank Windhoek is offering its customers other payment methods such as mobile banking, internet banking and cellphone banking in addition to point-of-sale (POS) devices, ATMs across the country and various card products. Biometrics that assist in validating know your customer (KYC) information and reduce the risk of identity theft is being investigated for implementation.

In terms of process automation, the group completed the first wave of business improvements that are enhancing client onboarding, simplifying application processes and introduced cloud-enabled control on debit and credit cards. Customers can now adjust limits themselves.

EasyWallet continues on a steep growth curve owing to the convenience of doing secure and simple money transfers.

On 1 July 2019, the group concluded a 30% acquisition in Paratus Group Holdings Limited. Paratus Group Holdings and its subsidiaries and associates operate in 24 African countries, the most significant of which are Angola, Namibia, Zambia and Botswana.

Our investment in Nimbus, and indirectly in Paratus, was a deliberate move to explore new technology and digital infrastructure options. We anticipate new opportunities from the convergence between telecommunications and financial services combined with strong growth in demand for data services.

Nimbus is focusing its investment strategy on ICT companies in sub-Saharan Africa. Paratus provides communication, connectivity, carrier and cloud services to the public, private and corporate sectors in Namibia. Its telecommunications and network services include VSAT solutions, IP products, multiprotocol label-switching technology, fourth-generation wireless broadband network solutions, wireless data communications and E-Pad solutions. Paratus Namibia also owns the Trans-Kalahari Fibre line.

In Zambia, we are staging a partnership with a fintech start-up bringing a minimum viable proposition first to that market in pursuit of the opportunity presented by digitising the cash economy so prevalent throughout Africa.

Our aim is to continue making diverse investments in customer-centric technology and digital assets.

Indicator	Group	Trend
% growth in mobile app use	58.1% (2018: 58.3%)	=
% growth in iBank use	-1.5% (2018: 5.4%)	▼
% growth in cellphone banking	23.8% (2018: 25.1%)	=
% growth in point of sales	5.4% (2018: -3.4%)	▲

Read more about digital operations and investment in the Group CEO's report from page 24.

Strategic choices related to this material matter:

- BUILDING OUR FOUNDATION
- WIN THROUGH OPERATIONAL EXCELLENCE
- COMPETE THROUGH STRATEGIC RELATIONSHIPS AND PARTNERSHIPS
- TARGET TECHNOLOGICAL/ BORDERLESS/CYBER OPPORTUNITIES

Stakeholder groups most significantly affected by this material matter:

- CUSTOMERS
- GOVERNMENT AND REGULATORS
- SHAREHOLDERS

Enhancing and optimising management and operational systems

Operational excellence is a key competitive choice for the group. It can enhance internal effectiveness, security and process optimisation – doing things faster and more cost-effectively, reducing errors and ultimately improving the quality of customer experiences.

Capricorn Group's response and approach

We created eight delivery platforms and adopted the Agile and Six Sigma methodologies to achieve operational excellence. We are more adaptive in planning and responding to change quickly. We have also seen the benefits of more collaboration throughout the group.

At Bank Windhoek, we enhanced the customer experience by introducing and updating digital functionality and solutions to provide a fully integrated service offering. For example, we are improving the onboarding time for new clients to under 30 minutes, issuing cards in-branch and significantly reducing the need for paperwork. We are also in the process of introducing biometrics to enhance security. Bank Windhoek remains the only bank with a token linked to the internet banking application, significantly reducing the risk of fraud. Smartphone-based tokens will be introduced in the new financial year.

At Bank Gaborone, operational excellence initiated the centralisation of the back office, emphasising the sales role in branches and reducing administrative functions. Data quality, consistency and compliance have also improved as all the related functions are happening in one space and not in a fragmented fashion. The approach is scalable and has been replicated in the centralisation of collateral. This has decreased the turnaround time between receiving credit applications and disbursing loans. In future other roles will be centralised, including account opening and customer service, among other things.

Network downtime is severely impacting Cavmont Bank's ability to achieve operational excellence. To address its IT infrastructure challenges, a new service provider and primary data centre were established. This has increased the reliability of banking services and improved incident-handling time.

In summary, from a strategy perspective, and specifically in terms of operational excellence, we measure our customer productivity on a range of metrics with performance targets calibrated by entity. We measure our customer performance, from an operational excellence perspective, on a monthly basis with feedback to entity EMTs on a monthly basis and feedback to the group board on a quarterly basis. We use the methodologies mentioned above (Agile and Six Sigma), with ongoing actions developed by the entities, to adapt, refine, develop and implement customer propositions that drive our customer productivity in the right direction as per the set of strategy and customer metrics we have in place.

Read more about the platforms and operational excellence in the Group CEO's report from page 24.

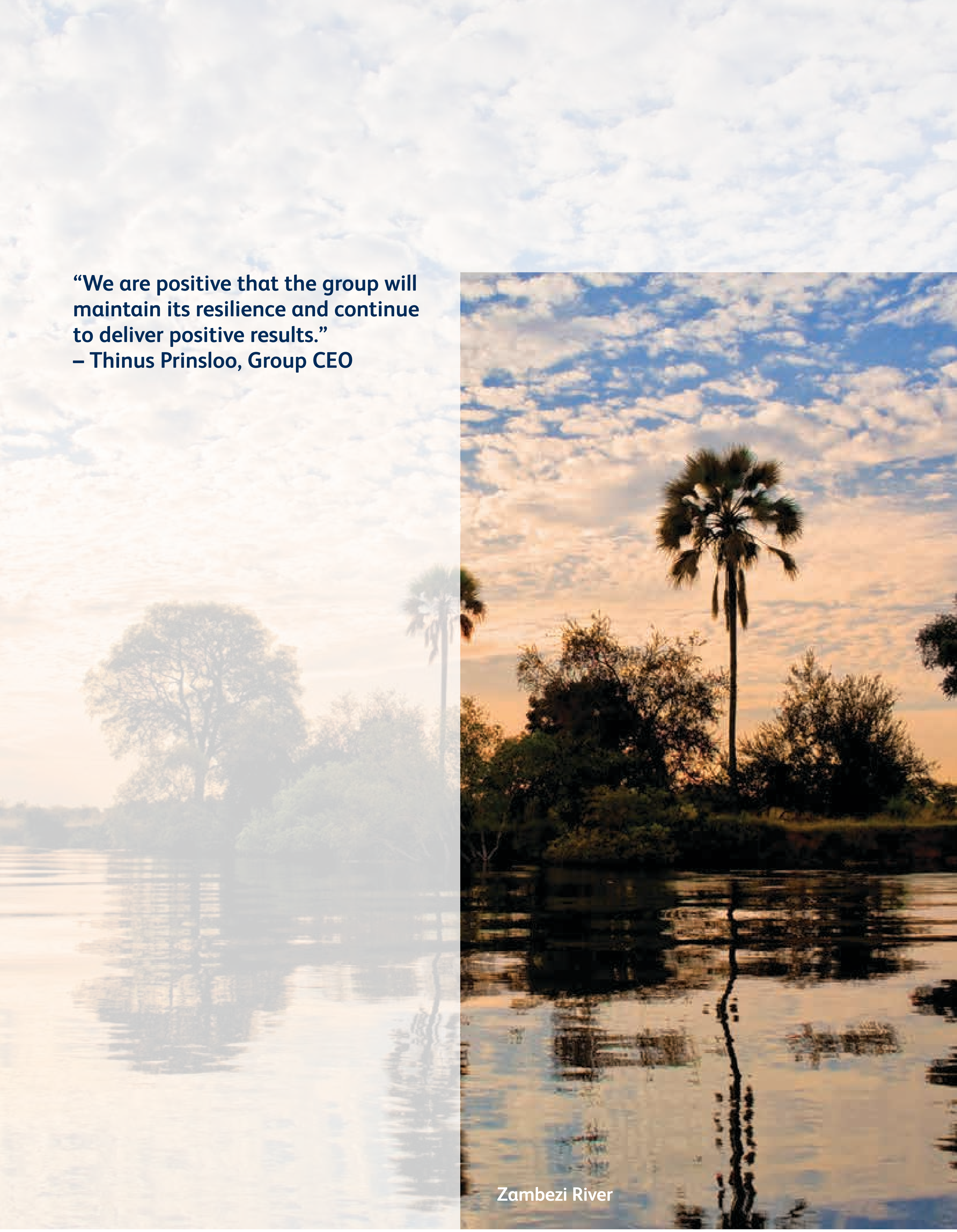
Strategic choices related to this material matter:

- BUILDING OUR FOUNDATION
- WIN THROUGH OPERATIONAL EXCELLENCE

Stakeholder groups most significantly affected by this material matter:

- CUSTOMERS
- GOVERNMENT AND REGULATORS
- SHAREHOLDERS

“We are positive that the group will maintain its resilience and continue to deliver positive results.”
– Thinus Prinsloo, Group CEO



Zambezi River

GOVERNANCE REPORTS

CORPORATE GOVERNANCE

Governance overview and approach

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 and ethical practices, and for ensuring the application of appropriate governance practices to deliver the desired outcomes. Following a decision by the Namibian Stock Exchange (NSX) in 2018 to allow listed entities to select compliance either with the NamCode or the King IV Report on Corporate Governance™ for South Africa, 2016 (King IV™), Capricorn Group resolved to adopt King IV™ in the current 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 also been setting the tone to create 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. Since its inception, the board sustainability and ethics committee (BSEC) has been mandated to recommend policies and guidelines for addressing ethics issues to the board and escalate any ethics risks to the board audit, risk and compliance committee (BARC).

Dealing in shares is governed by a policy that sets out practices for approval requirements, disclosure principles and closed-period rules, among other things. Board members are required to observe section 242 of the Companies Act, which deals with disclosure of interests. Where appropriate, board members recuse themselves from discussions or decisions on matters of potential conflict of interest unless these matters are 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, which includes the performance of 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 the boards of subsidiaries, 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, stakeholder-inclusiveness and by acting as a Connector of Positive Change.

Governance milestones for 2019

- Implementation of King IV™, transition from NamCode
- Appointment of a financial director, Jaco Esterhuyse, with effect from 1 September 2018
- Appointment of two Government Institutions Pension Fund (GIPF) nominees, Mihe Gaomab II and Goms Menetté, as non-executive directors to the board with effect from August and November 2018, respectively
- External evaluation of the boards, committees, directors and company secretaries of Capricorn Group and the three banks

Our King IV™ journey

King IV™ focuses on outcomes as opposed to inputs in respect of good governance. It defines corporate governance as the exercise of ethical and effective leadership by the board towards the achievement of four corporate governance outcomes, namely:

- Ethical culture
- Good performance (sustainable value creation)
- Effective controls
- Trust, a good reputation and the legitimacy of the company (its social licence to operate)

Furthermore, King IV™ contains 17 principles, stated in an outcomes-based manner, which should all be applied.

The executive leadership and the board of Capricorn Group, with the assistance of a governance expert, reviewed King IV™ with a view to:

- ensure alignment in the understanding of the King IV™ philosophy, corporate governance outcomes, the 17 principles and how to apply the principles through supporting practices;

- assess the appropriateness of current practices in support of the outcomes required by each of the 17 principles; and
- identify proposed changes and enhancements to current practices to ensure the more effective application of the principles.

While no major gaps were found, management and the boards of each subsidiary company are in the process of finalising and implementing the proposed enhancements.

Capricorn Group board

The board plays a pivotal role in the group's corporate governance system. An overriding commitment 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 conducted by the board. The charter also sets out the specific responsibilities to be discharged by the board members collectively and the Group CEO and Group chairman in their respective capacities.

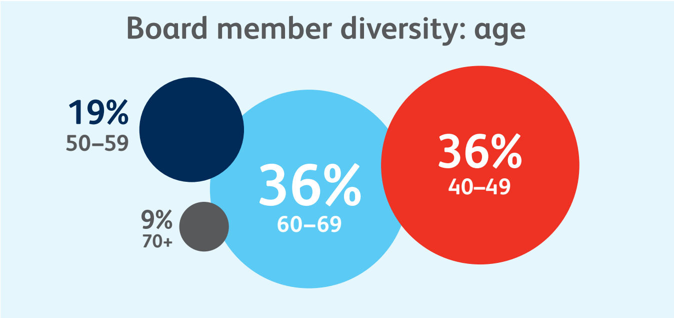
Role of the board

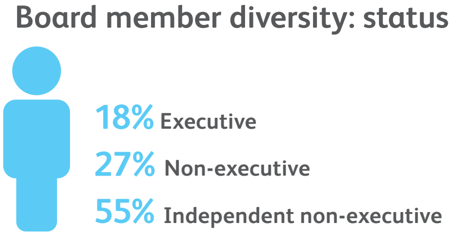
An important role of the board is to define the vision and purpose of the group (including its strategic intent and choices) and its values (manifested by The Capricorn Way), which constitute its organisational culture, associated behaviours and norms to achieve its purpose. These are considered to be clear, concise and achievable. The group's strategy is considered, evaluated and agreed upon every year before the annual budget is approved. Implementation is monitored quarterly at the board and executive meetings. Read more about the group's purpose, strategy and The Capricorn Way from page 2.

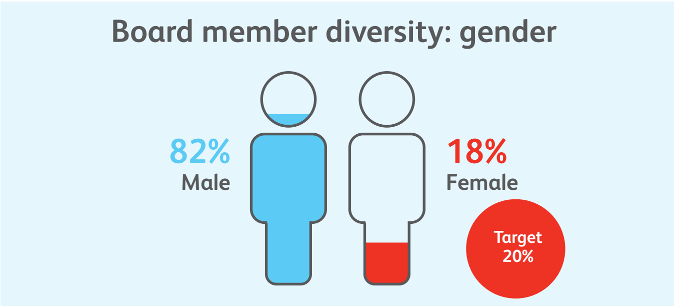
The board also ensures that procedures and practices are in place that protect the group's assets and reputation. The board is also responsible for establishing, reviewing and monitoring strategic choices, approving major acquisitions, disposals and capital expenditure and overseeing the group's systems of internal control, governance and risk management. A schedule of matters reserved for the board's decisions 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 clarifies roles and ensures the effective exercise of authority and responsibilities.

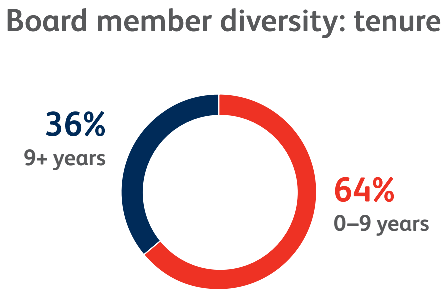
Board leadership and composition

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, 11 members constitute the board at group level, with two executive directors, three non-executive and six independent non-executive directors. The nominations committee, which includes the lead independent director (LID), assessed the independence of the non-executive directors classified as independent and confirmed their continued classification as independent.









The board is satisfied that its composition reflects the appropriate mix of knowledge, skills, experience, diversity and independence.

CORPORATE GOVERNANCE continued

Board member profiles

JOHANNES JACOBUS SWANEPOEL (59)

BCom (Hons) (Accounting), CA(SA), CA(Nam)

Independent non-executive chairman

Chairman of the Group board nominations committee
Chairman of the Group board investment committee
Chairman of the board procurement committee
Member of the Group board remuneration committee

Appointed to the board in 1999

After joining Coopers & Lybrand (now PricewaterhouseCoopers) in 1980, Johan Swanepoel 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 Capricorn Investment Holdings. Upon his retirement from this position in 2017, he accepted the role of chairman of the boards of Capricorn Group and Bank Windhoek.

Johan 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 (64)

Executive and Senior Management diplomas from the University of Stellenbosch

Independent non-executive director

Chairman of the Group board human resources committee
Member of the Group board nominations committee

Appointed to the board in 2007

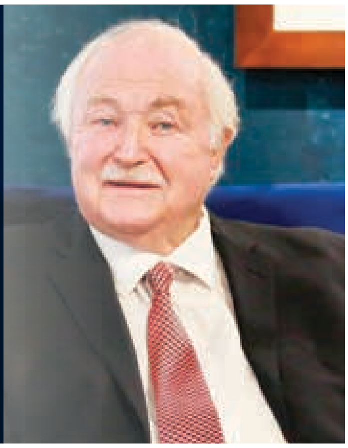
Brian Black was the national chairman of the Hospitality Association of Namibia, chairman of NCCI Trade and Investment Advisory Committee, and board member of FENATA and PG Bison Namibia. Previous board memberships include the Namibian Employers Federation, the Namibian Tourism Board, Namibia Wildlife 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 chairman 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. Among his personal CSR projects is the Kappsfarm Community Police Station.

JACOBUS CHRISTIAAN BRANDT (76)

BA LLB

Non-executive director



Member of the Group board investment committee
Member of the Group board nominations committee

Appointed to the board in 1996

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).

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.

JOHANNES JACOBUS ESTERHUYSE (41)

BCompt (Hons), CA(SA)

Financial director

Member of the Group board investment committee
Member of the Group board IT committee
Member of the board procurement committee

Appointed to the board in 2018

Jaco Esterhuyse joined Capricorn Group in 2012 as Group Financial Controller after spending seven years in London, among others as associate director at Barclays. Jaco completed his BCompt (Hons) in 2001 and qualified as a chartered accountant (SA) in 2004. He was promoted to Group Chief Financial Officer in 2013 and is a director of numerous companies in the Capricorn Group, Nimbus Infrastructure Limited, Paratus Telecommunications (Pty) Ltd and Santam Namibia Ltd.

DANIEL GERHARDUS FOURIE (61)

BCom (Hons), CA(SA), CA(Nam)

Lead independent non-executive director

Chairman of the board audit, risk and compliance committee
Chairman of the Group board remuneration committee
Member of the Group board human resources committee
Member of the Group board nominations committee
Member of the Group board investment committee

Appointed to the board in 2015

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 at the University of Cape Town Business School and an advanced leadership programme at the Gordon Institute of Business Science (GIBS), and is a member of the ICAN Council. Other board memberships include Bank Windhoek Ltd and being the chairman of Namib Bou.

HEINRICH MIHE GAOMAB II (49)

BCom (Hons), Postgraduate Diploma: Quantitative Development Economics, MSc Quantitative Development Economics

Non-executive director

Member of the board audit, risk and compliance committee

Appointed to the board in 2018

Until June 2019, Mihe Gaomab was an executive director at the African Development Bank after serving as the CEO of the Namibian Competition Commission until 2016. He was a deputy director of the Southern African Customs Union until 2009. He was the chairman of the board of trustees of the GIPF from 2011 to 2016 and is the founding president of the Namibia Economic Society.

Board member profiles continued

ESI MALAIKA SCHIMMING-CHASE (49)

LLB (Hons) Coventry University, England

Independent non-executive director

Member of the Group board sustainability and ethics committee

Appointed to the board in 2013

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.

Her other board memberships include the Legal Assistance Centre.

GOMS MENETTÉ (52)

MBA, Postgraduate Diploma in Management Studies, National Diploma in Business Administration

Non-executive director

Appointed to the board in 2018

Goms Menetté is the Deputy Auditor-General of Namibia. He was the deputy director for internal audit of the Ministry of Finance. He holds an MBA and a Diploma in Management Studies and is the chairman of the board of trustees of the GIPF. He is a member of the GIPF's investment committee and its audit and risk committee.
He served on the board of Air Namibia for seven years until 2012 and chaired the airline's audit committee. He also served on the Road Fund Administration's audit committee from 2001 to 2004.

GIDA NAKAZIBWE-SEKANDI (66)

LLB, Accredited Public Relations Practitioner (APR)

Independent non-executive director

Chairperson of the Group board sustainability committee
Member of the Group board IT committee

Appointed to the board in 2004

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 founding member of the Public Relations Institute of Southern Africa (PRISA) Namibia. She has served in various executive roles, including as head of industrial relations and communications and head of corporate affairs at Rössing Uranium. 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, 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.

MARTHINUS JOHANNES PRINSLOO (48)

BCompt (Hons), CA(SA)

Group chief executive officer and executive director (Group CEO)

Member of the Group board human resources 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 procurement committee

Appointed to the board in 2013

Thinus Prinsloo joined Capricorn Investment Holdings 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 while working at PwC in South Africa and 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 and the Sanlam Namibia group.

DIRK JOHANNES REYNEKE (57)

BCom, BCompt (Hons), CA(SA), Diploma in Advanced Banking

Independent non-executive director

Member of the board audit, risk and compliance committee
Member of the group board IT committee

Appointed to the board in 2017

Dirk Reyneke was a partner at EY for 14 years, including the Gauteng Financial Services Group and Gauteng head of banking. In 2006 he joined Absa Retail Bank as CFO. Other positions at Absa included 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 Openserve. Previous positions at Telkom included CFO for Gyro Group, Telkom's property division, 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 SBV Services, SWIFTNet SOC and Gyro Group Companies.

Chairman, lead independent director and Group CEO

The board chairman, Johan Swanepoel, is considered to be an independent non-executive director.

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 a board decision, especially in situations where the independence of the chairman may be questionable or impaired, including discussions dealing with the succession of the chairman and the chairman's performance appraisal.

The Group CEO is appointed by the board, and his succession is attended to by the nominations committee.

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

Meeting attendance

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 feedback on key matters discussed, key decisions taken, and matters referred to the board.

The board audit, risk and compliance committee (BARC), in particular, has an oversight responsibility on behalf of the group regarding key audit, financial and risk matters dealt with by the BARCs of group subsidiaries. To assist the Group BARC in discharging this responsibility, the chairpersons of the BARCs, board audit committees (BACs) and board risk and compliance committees (BRCs) of group subsidiaries submit letters of representation to the group BARC chairman. The Group CEO also attends all the audit and risk committee meetings of subsidiaries. See the diagram on page 78 for details of this structure.

Attendance at meetings during the financial year was as follows:

Director	Category	Board of directors	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	8	5	4	5	5	3	4	4	1
J J Swanepoel	Independent chairman	8			5	5	3			1
K B Black	Independent non-executive	8		4		5				
J C Brandt	Non-executive	7				5	3			
J J Esterhuyse	Financial director	7					3		3	1
D G Fourie	Independent non-executive	8	5	4	5	5	3			
H M Gaomab	Non-executive	6	4							
G Menetté	Non-executive	6								
M J Prinsloo	Group CEO	7		4			3	4	4	1
D J Reyneke	Independent non-executive	8	5						4	
E M Schimming-Chase	Independent non-executive	6						2		
G Nakazibwe-Sekandi	Independent non-executive	8						4	4	

Board appointments, induction and training

Procedures for appointment 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 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 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 economic, political, social and legal landscape in which the group operates. 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.

With the assistance of a governance expert, the directors reviewed King IV™ to ensure alignment in the understanding of its philosophy, outcomes and principles, assess the appropriateness of our current practices and identify proposed changes and enhancements to our current practices.

This year, the board received a presentation on the board's responsibilities regarding anti-money laundering (AML) and the combating of terrorist financing (CTF) and a session on the Agile methodology.

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 subsidiaries participated in a process of self-evaluation. The appraisal included a review of the composition of the boards and committees, roles and responsibilities, relationships with management and other stakeholders, and board meetings, among other things. 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. Key strengths mentioned include that the board is highly functional, that members respect one another, work well together, have significant skills, experience and qualifications in finance and banking and that there are robust debate and discussion. The board identified a need for additional information technology skills. A comprehensive group governance framework has been developed over the years, and appropriate reporting and feedback channels have been established. The board is satisfied that the evaluation process is improving the board's performance and effectiveness.

Access to independent advice

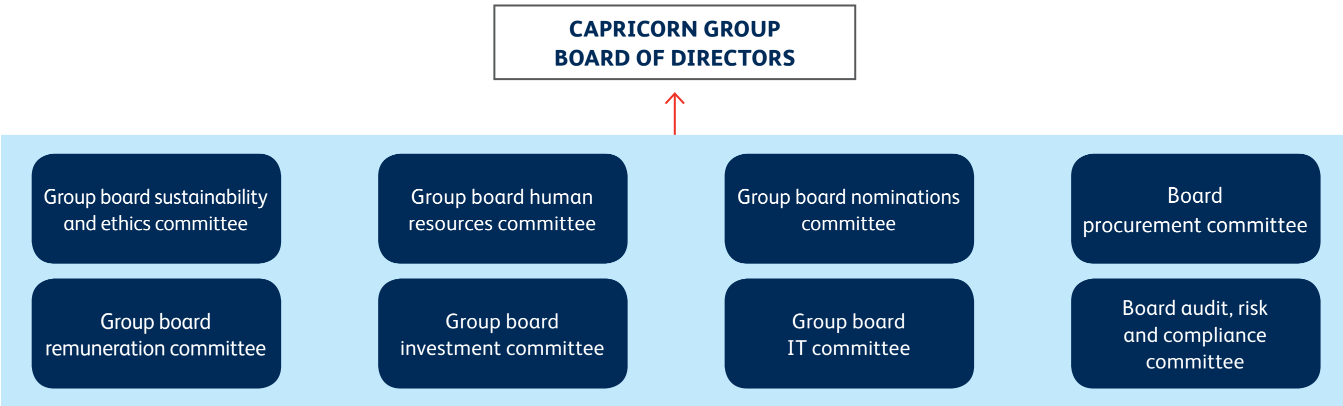
The company secretary is available to provide assistance and information on governance and corporate administration to the directors, as appropriate. The directors may also seek advice on these or other business-related matters directly from independent professional advisers should they so wish. This is in addition to the advice provided by independent advisers 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 discuss and ask advice about any matters on which they require additional information or clarification.

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 strategic direction of the group. To effectively discharge 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 authorised by the board.



Board audit, risk and compliance committee

Members of the committee	Committee role, responsibilities and functions
Chairman: Gerhard Fourie Mihe Gaomab Dirk Reyneke	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 and internal audit • Review of the finance function • Internal control • Risk management, including risk appetite and IT risk, as referred by the IT committee • Compliance • External audit • Non-trading losses • Asset and liability committee (ALCO) The financial director, group head of risk, head of internal audit and the external auditor attend all BARC meetings. They have unfettered access to the BARC chairman and the board. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year.

Board members and management representatives invited to attend committee meetings	Key focus areas for the past financial year
Johan Swanepoel Brian Black Koos Brandt Jaco Esterhuyse Goms Menetté Thinus Prinsloo Esi Schimming-Chase Gida Nakazibwe-Sekandi Nico van der Merwe Johan van Rensburg	1. Key responsibilities as listed above 2. Group liquidity plan 3. Implementation of IFRS 9 provisioning model 4. Cavmont Bank operating losses and continued financial support 5. External quality assurance review of internal audit function and monitoring appropriate quality improvement plans 6. Improved oversight over board audit and board risk and compliance committees of subsidiary companies

Further disclosures

The audit committee is satisfied that the external auditor is independent of the organisation.

The committee has approved a non-audit services policy that is strictly adhered to. On a quarterly basis, management reports all payments made to the external auditor for audit and non-audit fees to the BARC. Prior BARC approval is required for assignments exceeding the policy threshold.

The external audit firm has audited the company since its incorporation in 1996. Audit firm rotation is envisaged as required by BID-10.

The designated external audit partner was rotated in 2017. During the external audit firm's tenure, the finance team and all BARC members have low tenures, which mitigates the risk of familiarity between the external auditor and management.

The IFRS 9 provisions were a significant matter that the audit committee has considered in relation to the annual financial statements. This was addressed by the committee by engaging with professional advisers in each of the three countries where the group's banks operate.

The audit committee's views on the quality of the external audit is that the audit was executed in compliance with generally accepted audit standards.

As regards the audit committee's views on the effectiveness of the chief audit executive and the arrangements for internal audit, the committee concurs with the opinion of the external quality assurance review, which allocated a "partially conforms" overall rating to the internal audit activity of the Capricorn Group. This means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the international internal audit standards. Actions identified by the quality assurance review were tracked at each BARC meeting and were fully addressed during the financial year.

The audit committee's views on the effectiveness of the design and the implementation of internal financial controls are reflected in the statement of responsibility by the board of directors on page 134. During the year under review, there was no serious incident that would indicate a breakdown of controls. This, and the results of the internal audit report and the external audit report, confirm that material internal financial controls were effective.

Having assessed the effectiveness of the finance functions in the group as well as the finance director, the audit committee considered the overall finance function in the group to be competent, well capacitated and in compliance with benchmark standards and norms.

With regard to combined assurance, the outcome from assurance activities of management assurance services and internal audit are reported to the BARC. The annual audit activities of the external audit take into consideration and are coordinated with internal audit assignments. Other assurance role players, like group compliance and IT risk, were identified relevant to their envisaged contribution to combined assurance. However, the outcome of their assurance efforts must still be coordinated and collated in the reporting to the BARC.

CORPORATE GOVERNANCE continued

Group board HR committee

Members of the committee	Committee role, responsibilities and functions
Chairman: Brian Black Gerhard Fourie Baronice Hans Tertius Liebenberg Thinus Prinsloo	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 has fulfilled its responsibilities in accordance with its terms of reference for the year.
Management representatives invited to attend committee meetings	**Key focus areas for the past financial year**
Chris Matthee (Retail Banking) Stephanie Viljoen (Human Capital and Citizenship)	1. Employment equity 2. Managerial appointments and promotions 3. Gender pay parity 4. Mandate for negotiations with trade union 5. Personnel policies

Group board remuneration committee

Members of the committee	Committee role, responsibilities and functions
Chairman: Gerhard Fourie Frans du Toit Johan Swanepoel	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 110. The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year.
Management representative invited to attend committee meetings from time to time	**Key focus areas for the past financial year**
Baronice Hans	1. IoD committee appraisals 2. Long- and short-term incentives 3. Share purchase scheme 4. Leadership assessments 5. Remuneration report 6. HR organisational changes and implementation 7. Executive directors' and executive management benchmarking of total reward 8. Non-executive directors' remuneration

Group board nominations committee

Members of the committee	Committee role, responsibilities and functions
Chairman: Johan Swanepoel Brian Black Koos Brandt Gerhard Fourie	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 has fulfilled its responsibilities in accordance with its terms of reference for the year, for all Namibian entities. Botswana and Zambia have their own committees.
Management representative invited to attend committee meetings Thinus Prinsloo	**Key focus areas for the past financial year** 1. IoD board committee appraisals 2. Board appointments at subsidiaries 3. Shareholders' representation at boards 4. Appointment of subject matter specialist on board sustainability and ethics committee 5. Ratification of new managing director at Cavmont Bank and appointment of Namib Bou managing director 6. Directors' succession planning 7. Appointment of IT director 8. Board composition at group and subsidiaries 9. Directors' independence

Group board investment committee

Members of the committee	Committee role, responsibilities and functions
Chairman: Johan Swanepoel Koos Brandt Jaco Esterhuyse Gerhard Fourie Thinus Prinsloo	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 • Measurement and oversight of equity investment portfolio • Review of investment strategies The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year.
Management representatives invited to attend committee meetings James Chapman (Finance) Baronice Hans Claire Hobbs (Treasury) Tertius Liebenberg Nico van der Merwe (Enterprise Risk)	**Key focus areas for the past financial year** 1. Evaluation of potential investments, recommendations to the board for approval 2. Monitoring of the acquisition process 3. Monitoring of investments

CORPORATE GOVERNANCE continued

Group board sustainability and ethics committee

Members of the committee	Committee role, responsibilities and functions
Chairperson: Gida Nakazibwe-Sekandi Ven Pillay (Special Adviser) Thinus Prinsloo Esi Schimming-Chase Nico van der Merwe (Enterprise Risk)	The committee is responsible for the following key matters: • Group sustainability strategy and philosophy, good corporate citizenship and ethics • Promotion of equality, prevention of unfair discrimination and reduction of corruption • 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 and ethical breaches internally and externally The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year. See separate committee report from page 117 with disclosures related to ethics, good corporate citizenship and stakeholder engagement.
Management representatives invited to attend committee meetings	**Key focus areas for the past financial year**
Louis Carstens (Strategy and Sustainability) Sybrand Coetzee Mark Durr Ian Erlank (Capricorn Asset Management) Baronice Hans Marlize Horn (Brand and Corporate Affairs) Peet van der Walt Azelle Verwey (Legal) Stephanie Viljoen (Human Capital and Citizenship)	1. Establishment of the Capricorn Foundation, following a review of the corporate social responsibility (CSR) strategy 2. Review of the ethics strategy and implementation of the ethics action plan 3. Review of the integrated report 4. Monitoring stakeholder relationships and engagement 5. Monitoring procurement practices

Group board information technology committee

Members of the committee	Committee role, responsibilities and functions
Chairman: Prof. André Watkins Sybrand Coetzee Jaco Esterhuyse Baronice Hans Tertius Liebenberg Gida Nakazibwe-Sekandi Thinus Prinsloo Dirk Reyneke Peet van der Walt	The GBITC 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 • Group IT reference architecture • Group application portfolio • Group IT organisational and governance structures • IT risk management inclusive of information security/cybersecurity • Strategic projects • Significant outsourcing • Adequacy of IT resources The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year.
Management representatives invited to attend committee meetings	**Key focus areas for the past financial year**
Louis Carstens (Strategy and Sustainability) Etienne Slabbert (IT) Nico van der Merwe (Enterprise Risk)	1. Embedding Agile methodology 2. Execution through eight focused platforms – digital, core banking, process automation, information and analytics, finance, human resources and risk, compliance and legal, tracking progress on platforms projects 3. IT risk and information security/cybersecurity

Further disclosures

Technology and information are governed in a way that supports Capricorn Group in setting and achieving its strategic objectives. The GBITC is well established to fulfil the oversight required and meets quarterly. Oversight of IT is part of every GBITC agenda and IT policies are reviewed and approved by GBITC.

GBITC actively monitored the delivery against the priorities of the eight platforms. Platform owners provided progress updates at every GBITC meeting and specific actions were noted and tracked to completion. All other focus areas were reviewed and actioned.

The following policies are in place and approved by GBITC:

- Capricorn Group IT policy
- Capricorn Group IT service delivery policy
- Capricorn Group IT change management policy
- Capricorn Group information security policy
- Capricorn Group IT disaster-recovery policy
- Capricorn Group IT acceptable use policy
- Capricorn Group technology risk framework

Planned areas of future focus are:

- Further embedding Agile and platforms
- Investing in the various platforms to support the group's strategy
- Oversight for expanding platform capacity in line with business demand and to enable delivery of the strategy
- Continue reviews of the platform roadmaps and delivery against strategy

Board procurement committee

Members of the committee	Committee role, responsibilities and functions
Chairman: Johan Swanepoel Jaco Esterhuyse Thinus Prinsloo	The committee is responsible for: • The procurement of high-value and high-risk goods and services • Indefinite delivery contracts • The assessment and approval of quotations received The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year.
Management representatives invited to attend committee meetings	**Key focus areas for the past financial year**
Jaco Esterhuyse Jacques Joubert (Procurement)	1. Property development 2. Inter-country data ring

Audit and compliance report

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 systems are designed to provide reasonable assurance to the group and each subsidiary's management and board of directors about the reliable preparation of financial statements and safeguarding of the group's assets.

The systems include a documented organisational structure and division of responsibility and established policies and procedures that 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 the preparation of the financial statements and the safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances.

The group continuously assesses its internal control systems in relation to effective internal control over financial reporting. Based on its assessment, the group believes that as at 30 June 2019, 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 the systems of internal control across the group. GIAS helps the group to achieve its objectives by systematically reviewing current processes by using a risk-based approach to establish whether design, controls, the risk management process, the management control process and the governance process are adequate, effective and appropriate.

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

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

External auditor

The BARC approved the external auditor's terms of engagement, scope of work and the 2019 annual audit strategy, and agreed on the applicable levels of materiality. Based on written reports submitted, the committee reviewed the findings of their work with the external auditor 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 the consolidated financial statements.

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

Technical training	**N$7,609**
Agreed-upon procedures	**N$827,432**
Other	**N$922,131**

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 adopted by the group. Their audit opinion is included in the consolidated annual financial statements on page 138.

“We believe that by successfully implementing the AsOne2020 strategy, we can build a sustainable business that makes a difference to broader society.”

Namib Naukluft National Park, Namib Desert

RISK REPORT

Executive summary of this risk report

- Group risk management supports the implementation of the four strategic choices.
- The group principal risk owners (GPRO) own relevant Capricorn Group material matters, and specific board committees have oversight of these.
- Our risk management practices are aligned to King IV™, and we apply our group risk, internal control and assurance framework according to the unique features of each operating entity.
- The principal risks are defined and mitigating actions explained, combined with key risk indicators, trends, oversight accountability and future focus areas.
- Nine principal risks show stable trends, one is deteriorating, and four are improving.

Risk overview

Risk culture

The Capricorn Group recognises that the foundation for a sound governance, risk and compliance environment is an effective risk culture. Risk culture is woven into the fabric of our corporate culture, The Capricorn Way. We create an environment where every employee knows the group's strategic choices and his or her role in relation to strategy and the obligation to manage risk.

Employees are enabled to manage the risks that are part of their daily work and to adapt to changes in the economic cycle, new customer requirements and the ever-increasing competitiveness of market participants. Through our risk culture, we earn the trust of our customers, employees, shareholders and society.

Capricorn's Risk Culture Building framework is based on four pillars, which link directly into The Capricorn Way. Face-to-face Risk Culture Building Awareness training sessions were conducted with boards, management teams and employees of majority-owned subsidiaries in all four countries in which Capricorn Group does business.

Building a risk culture

Risk framework pillars	1 October 2018 – 31 May 2019
Think differently	83 sessions 1 343 employees trained
Get the whole picture	27 sessions 230 employees trained
Build a risk intelligence system	18 sessions 213 employees trained
Every Capricorn citizen is a risk manager	2 sessions 29 employees trained

Philosophy and approach

The Group Risk Internal Control and Assurance Framework (GRICAF) follows a systemic approach to risk and control framework design to ensure that our risk management practices support and sustain the performance objectives of the system as a whole. Capricorn Group further promotes decentralised risk management responsibility where executives are accountable, and everyone is responsible for managing risk. Risk management practices are guided by business objectives and formal risk capacity, appetite and tolerance statements.

Objectives

At a strategic level, the objectives of GRICAF 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; and
- ensure that risks are understood and managed proactively within acceptable risk capacity, appetite and tolerance.

Risk management and strategy

The strategic choices help to frame the long-term direction for risk management infrastructure, key skills and risk management capabilities. The implications of the strategic choices (see below) have been carefully evaluated to determine the right level of maturity for the GRICAF and to pinpoint focus areas such as developing analytical and electronic crime prevention capabilities, strengthening legal, compliance and due diligence processes and transitioning manual processes to automated workflows.

Strategic choice	Implication of the strategic choice for Enterprise Risk Management (ERM)
Focus on building our foundation in Namibia, Zambia and Botswana to get to a position of market leadership.	ERM supports this choice by using financial analytics, scenario testing, merger and acquisition risk assessment and an intentional drive to mature our modelling and analytics capabilities towards prediction and prescription.
Win in Namibia, Zambia and Botswana through operational excellence (lean, efficient, fast) and effective execution.	ERM supports this choice by fostering efficiencies and lean but safe control frameworks built into the business process, analytics and management information.
Compete in Namibia, Botswana and Zambia through strategic relationships and partnerships in insurtech, fintech, mobile and telco, and education.	ERM supports these choices 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.
In considering other African countries beyond 2020, target technological/borderless/cyber opportunities above bricks and mortar entry. Evaluate opportunities, whether cyber or bricks and mortar, on a case-by-case basis.	ERM recognises that to support this choice, it is necessary to be cognisant of cyber risk, new regulations and legal requirements. Quick response to threats and sharp sensing mechanisms are required. The increased use of technology such as the governance, risk and compliance (GRC) system will allow for better risk outcomes through scalable, enterprise-wide data gathering, analysis and insight.

Risk and governance structures aligned to material matters

Material matters have an impact on the strategy and operations of the group. As such, they form part of the context for risk management and are, therefore, linked to principal risk frameworks and risk governance structures.

As part of the material matters identification and approval process, we mapped the material matters against principal risk categories and confirmed the appropriate board committee that should provide oversight per material matter.

Material matter	GPRO oversight	Board committee oversight
Ethical leadership, management and business	People risk Compliance risk Reputational risk Operational risk	Board audit, risk and compliance committee (BARC), group board sustainability and ethics committee (BSEC), group board human resources (HR) committee and Remco
Credit risk management and mitigating losses due to bad debt	Credit risk Capital risk Liquidity risk Market risk Finance and tax risk	BARC, Board Credit Committee (BCC)
Financial and cybercrime/cybersecurity	Technology risk Reputational risk Operations risk Compliance risk People risk	Group board information technology committee (GBITC)
Meeting customer needs and expectations	Reputational risk Strategic risk Operations risk	BSEC
Demand for specialist skills driving focused development, training and diversity	People risk Compliance risk Reputational risk	Board HR, Remco
Responding to a changing regulatory and operating context	Legal risk Compliance risk Strategic risk Reputational risk Operations risk Finance and tax risk	BARC
Fintech, insurtech and evolving digital assets	Technology risk Operations risk Reputational risk	GBITC
Enhancing and optimising management and operational systems	Operations risk Technology risk People risk	BARC

Read more about the material matters on page 52 and the strategic landscape shaping our current and emerging risks from page 42.

Basel II/III

The Bank of Namibia embarked on the implementation of Basel III in 2017. The first Basel III determination, BID-5A (capital requirements for credit, market and operational risks), was issued on 24 August 2018 and became effective from 1 September 2018. The capital requirements for credit risk under Basel III remained the same as the capital requirements under Basel II.

The second Basel III determination, the revised BID-6 (minimum liquid assets), was issued for commentary in June 2018. The two Basel III liquidity ratios, the Net Stable Funding Ratio and the Liquidity Coverage Ratio, were not addressed in the revised determination.

Banking regulation in Botswana and Zambia is based on Basel II. The Bank of Botswana has indicated that it will engage the industry in 2020 on the implementation of Basel III.

How we govern risk

The board assumes responsibility for the governance of risk and sets the direction for how risk should be approached in the group. The board recognises that risk is about the uncertainty of events and that these could potentially have a positive or negative impact on our ability to create value.

The board allocates the responsibility for oversight and governance of risk management to the BARC. The Group CEO is the senior executive responsible for the implementation of a sound risk management framework. The executive officer for ERM has delegated authority to facilitate the appointment of group and entity principal risk owners (PROs) and the development of appropriate risk and control frameworks for each of the principal risks. Each principal risk is assigned to an executive officer with relevant expertise as the PRO. Entity PROs are responsible for the risk management frameworks within the respective entities. Group PROs are responsible for the appropriateness, effectiveness and consistency of principal risk frameworks across the group. Central risk functions within the banks and at the group head office are responsible for providing the risk management infrastructure (guidance, policy, standards, processes and tools) to support the GRICAF and provide oversight and assurance.

Alignment with King IV™

Capricorn Group, with the assistance of a governance expert, reviewed King IV™ with a view to:

- ensure alignment in the understanding of the King IV™ philosophy, corporate governance outcomes, the 17 principles and how to apply the principles through supporting practices;
- assess the appropriateness of current practices in support of the outcomes required by every one of the 17 King IV™ principles; and
- identify proposed changes and enhancements to current practices to ensure more effective application of the King IV™ principles and practices.

The group governance framework and GRICAF support the 17 principles of King IV™ and provide a stable foundation for the following enhancements that were identified and implemented:

- An ethics strategy and action plan, informed by a group-wide ethics risk assessment, was approved and initiated. The ethics officer was certified by the Ethics Institute of South Africa.
- A review of the terms of reference of board committees and the quality and appropriateness of reporting was completed.
- Closer alignment between strategy and risk management practices was achieved through the linking of material matters to the principal risk frameworks and the identification and formal reporting within the governance structure of risks to the strategy, suboptimal risk-taking (too much or too little) and emerging risks.

Creating value through Enterprise Risk Management (ERM)

Through the group's ERM process, we proactively identify and act on risks and opportunities that impact on the group. This supports the successful implementation of our strategy and ensures that we achieve desirable outcomes.

The strategic choices 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 and control environment that senses changes in the operating environment and responds to them dynamically. 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 building a risk culture.

The effective management of risk depends on the decisions taken by employees every day in their roles and any situation to mitigate, control and optimise risk to add value to the business. The risk culture principles and their practical application were shared with all employees as a component of the Risk Culture Awareness Training to support better risk decision-making.

Enablers of a dynamic risk management system

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 allows all role players in the risk management framework to provide 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 workstreams in a more integrated and efficient manner.

Group risk committee and the group principal risk owners (GPRO) role: The GPRO role was created to allocate accountability and coordinate the execution of the Capricorn Group risk committee mandate. The committee was established by the Capricorn Group executive management team (EMT) to assist with the oversight of risk management, compliance and risk governance across the group. The committee differs from entity risk committees through its oversight role, which includes an emphasis on the aggregated risk profile and adequacy of the GRICAF infrastructure and systems of control (the control frameworks).

Centres of expertise: Value is created through centres of expertise located in Namibia, which provides thought leadership and direction in addition to performing non-routine activities such as advisory engagements and special assignments. Examples include the Anti-Money Laundering (AML) 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.

Risk culture: Our risk culture supports all elements of the GRICAF by cultivating and embedding the right understanding of and attitude towards risk and risk management.

Group Risk, Internal Control and Assurance Framework (GRICAF)

The group maintains the GRICAF based on the standard risk practices of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and Basel II/III. The GRICAF encompasses the risk management value chain, highlighting the primary activities and role-players involved in risk management.

The uniqueness of each operating entity is considered when the GRICAF is applied. For example, credit risk only applies to lenders, and investment risk only applies to Capricorn Asset Management (CAM). 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.

Risk management value chain	Strategic direction	Risk assessment	Risk controls	Reporting
	Our four strategic choices define our risk appetite and our material matters determine priorities.	Principal risks have been identified, defined and are analysed and measured. Risks to the strategy and instances of suboptimal risk-taking are dynamically identified and responded to. Emerging risks are identified and monitored.	Control objectives are determined, designed and documented. Controls are implemented, evaluated and monitored.	Risks profiles are assessed against risk appetite and tolerance and reported quarterly. Risk indicators have clear alert thresholds (triggers) with defined escalation paths to responsible managers, PROs and risk committees.
Main role players (levels of defence)	1 Board, committees and executive leadership team	2 Group and entity PROs	3 Group and entity PROs, management and group risk functions	4 Group and entity PROs, risk functions, internal and external assurance providers
Risk management tools/ structures/policies	Group management model, material matters, documented strategy, policy framework and risk capacity, appetite and tolerance (RCAT)	Principal risk frameworks, risk type methodologies	Control assessment methods, GRC system	Reporting frameworks
	Group requirements for the identification/measurement, control and reporting of principal risks are documented according to GRICAF and implemented by business units			

Oversight of risk management and group management model

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 78) and specifically the BARC. The board is assured of the adequacy of the GRICAF through the second and third lines of defence consisting of the risk, management assurance, compliance and internal audit functions. In a coordinated approach, these internal functions provide the board with a view of the execution of the GRICAF practices by the various role players. 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. These external perspectives are combined with the views of the internal functions to provide the board with an overall evaluation of the implementation adequacy and effectiveness of the risk policies and frameworks. Any improvement areas identified in the reviews are tracked for implementation by management to ensure the continuous improvement in the GRICAF. Based on the combined assurance provided by the external and internal assurance providers, which did not highlight any material gaps in the GRICAF, the board is satisfied that the GRICAF was adequately executed during the 2019 financial year.

The group management model encompasses corporate responsibilities (for example the governance model design), centres of expertise (typically central risk functions, for example, the operational risk department), shared services (such as compliance monitoring, internal audit and AML) and operating unit activities (most of the risk processes). The management model provides the framework for structuring in optimal ways to ensure the following:

- effective execution of business processes which consistently achieve process objectives;
- optimal cost efficiency and making the best use of risk resources in the group;
- the ability to scale with the growth of the group; and
- remaining attuned to the local requirements of the various operating environments.

Risk services are provided through an optimal mix of centralised services, such as corporate functions and centres of expertise (for example governance, audit, compliance and risk culture building) as well as decentralised local services such as central risk teams in banks.

Risk capacity, appetite and tolerance (RCAT)

The RCAT is used by the board 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 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, where required, remedial action. The capacity and appetite statements are reviewed at least annually, and measurements are reported to the risk committee, executive management team and the BARCs.

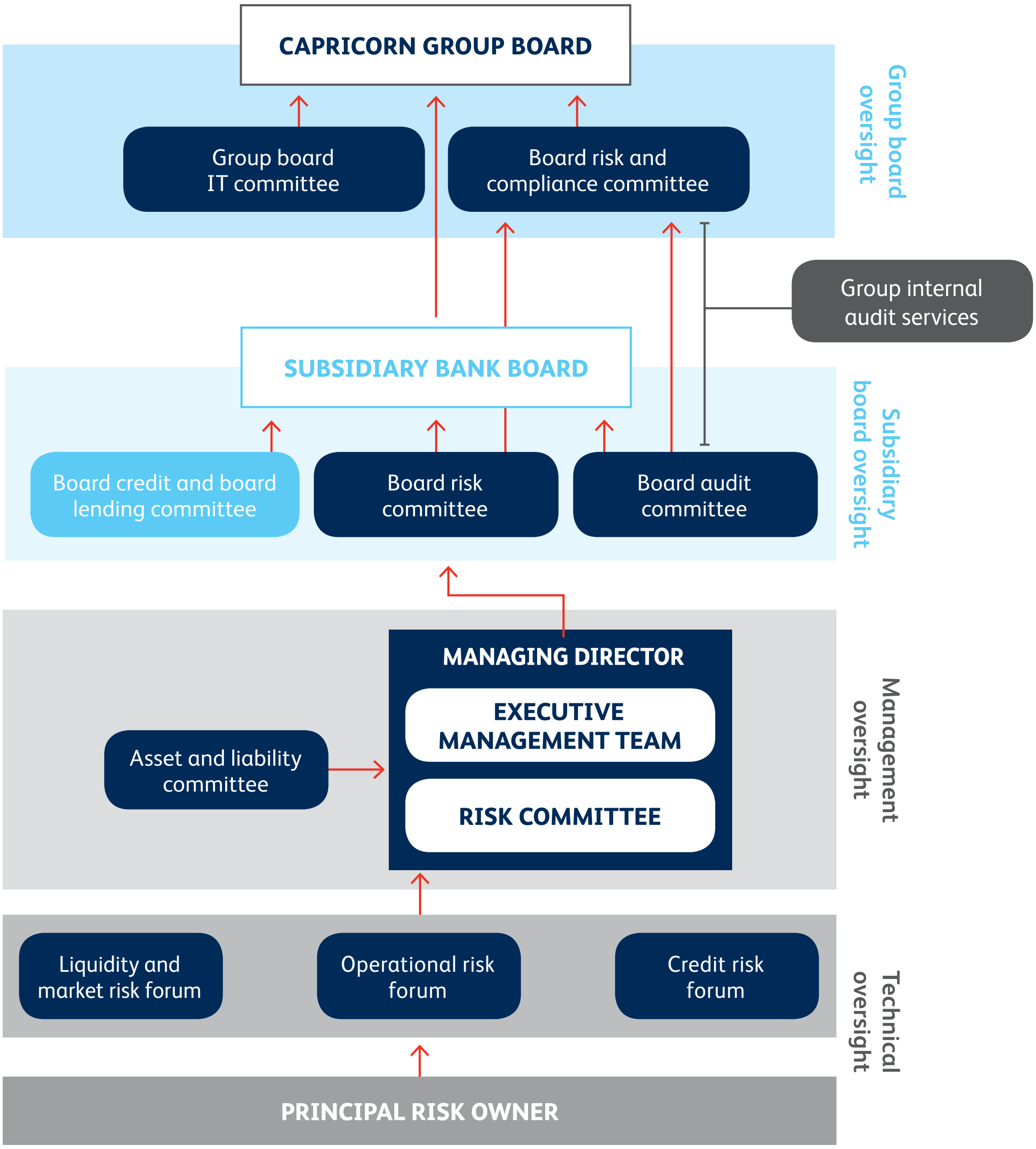
Risk capacity, appetite and tolerance (quantitative and qualitative)

The board approves the RCAT annually. Quantitative indicators are aligned with the approved budget.

Capacity	Regulatory capital adequacy compared to minimum regulatory capital adequacy: • Capital adequacy ratio • Leverage ratio • Tier 1 capital compared to total capital Return on equity Debt-to-equity ratio (Capricorn Group entity) subordinated shareholder loans treated as equity Debt-to-assets ratio (Capricorn Group entity) excluding subordinated shareholder loans Ratings: • Long-term – national • Short-term – national Loan funding ratio
Appetite	Cost-to-income ratio Non-interest income as percentage of operating expenses Non-interest income as percentage of operating income Debt service cover ratio Cash coverage ratio (liquid assets coverage of operating expenses and interest) Non-performing loans as percentage of gross advances
Tolerances	Various operational key risk indicators per principal risk: • Operational losses as a percentage of net income • Overdue issues
Qualitative appetite statements	• Ethics and conduct of business • Treating customers fairly • Corporate governance • Core regulatory compliance • Code of conduct • Major change • Performance • Innovation • Sustainability • Reputation

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

Banking subsidiaries' risk oversight structure



Strategic and principal risks

The group risk function prepares a quarterly report to the BARC to assess emerging matters and material issues that could impact the successful implementation of the strategic choices within the appetite set by the board as well as the aggregated risk profile and the status of issue remediation. The report scope includes all the Capricorn Group subsidiaries. The quarterly report enables better governance of risk because it exposes the key risks to our strategy and identifies gaps in the risk management framework and the progress made by management to close the gaps. The detail provided in the report enables the relevant governance forums to have robust discussions and make decisions when needed.

In addition to listing the risk profile of principal risks in the group, the report has been adapted to incorporate dynamic risk management elements that are more forward-looking in nature. The report is structured around three questions:

1. What are the risks to the strategy of the group?
2. Where are we potentially taking too much or too little risk (in relation to RCAT)?
3. What are our emerging risks?

Key topics discussed by the BARC in relation to the above questions included:

- Market liquidity and the cost of funding in Botswana
- Regulatory compliance with electronic AML reporting to regulators in Botswana and Namibia
- Emerging competition from fintech companies in Botswana
- Business continuity and disaster-recovery readiness
- Commercial opportunities in the treasury environment
- Instability of IT systems at Bank Gaborone and Cavmont Bank
- Credit risk impacts of non-performing loans
- The Cavmont Bank turnaround plan

2019 group risk profile

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 the risk management framework.

The principal risks for 2019 are listed below.

1. Strategic
2. Capital
3. Credit
4. Liquidity
5. Market
6. Reputational
7. Compliance
8. Finance and tax
9. Financial crime
10. Legal
11. Operations
12. People
13. Technology
14. Investment (applicable only to CAM)

RISK REPORT continued

Principal risk	Risk trend	Residual risk
Strategic risk	Improving	
Capital risk	Stable	
Credit risk	Deteriorating	
Liquidity risk	Stable	
Market risk	Stable	
Reputational risk	Stable	
Compliance	Improving	
Finance and tax	Stable	
Financial crime	Stable	
Legal	Stable	
Operations	Improving	
People	Improving	
Technology	Stable	
Investment	Stable	

Legend:

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

Improving = The risk profile improved during the period

Stable = The risk profile remained largely unchanged over the period.

Deteriorating = The risk increased during the period.

Red *= the risk has exceeded the board risk capacity and appetite thresholds.*

Amber = the risk is within appetite and closely monitored due to its proximity to the board risk capacity and appetite thresholds. For some risks, this could indicate an optimised risk/reward relationship.

Green *= the risk is comfortably within appetite and, for certain principal risks, this could indicate capacity for more risk taking.*

Strategic risk

Definition	Strategic risk is the uncertainty and untapped opportunities created and affected by internal and external events and/or scenarios that could inhibit the achievement of the group's strategic intent and strategic objectives.
Governance oversight	The group and subsidiary boards conduct annual strategy sessions and approve a strategy for the group and subsidiaries, respectively. The managing directors report progress with the implementation of the strategy at quarterly board meetings.
Risk level trend	IMPROVING The trend is attributed to an increasing awareness of, and action orientation towards macro- and micro-competitive opportunities and risks in the markets in which we compete.
How we mitigate this risk	During the year, we mitigated strategic risk in three ways: • Adhering to governance as per the Capricorn Group Strategic Risk Management Framework • Adopting best-practise strategy development methodology consistently across the group, entities and centres of expertise, thus ensuring strategic alignment • Implementing strategy in a measurable and quantified manner, with clear metrics and performance targets adequately calibrated, to ensure that where performance fell short of targets, actions were triggered to close strategic performance gaps
More information	Read more in the section on our strategic landscape and material matters from page 42.
Priorities for 2019 and progress made	• We identified three key priorities for 2019 from a strategy risk perspective, namely improving customer experience, optimising business processes and becoming more data-driven in how we measure our strategy performance. We conducted research and utilised data from customers to understand customers better. • In terms of business processes, we adopted Six Sigma, invested in building this capability as a strategic capability, started training Six Sigma practitioners and deployed the methodology in Namibia, Zambia and Botswana. • In terms of data-driven measurement of strategy performance, we have a set of metrics and targets across customers, business processes and project execution that we measure on at least a quarterly basis. We give feedback to the group board and entity management teams on a quarterly basis and work with entities to address strategy performance gaps.
Future focus areas	The three primary focus areas remain the same.
Material matters related to this risk	Meeting customer needs and expectations Responding to a changing regulatory and operating context

Capital risk

Definition

Capital risk is the risk that the group will be 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.

Governance oversight

Capital is tracked at group and entity asset and liability committees (ALCOs) and EMTs.

How we mitigate this risk

The objectives of the group when managing capital includes:

- Complying with minimum regulatory capital requirements in all jurisdictions that we operate
- Safeguarding the ability of the group to continue as a going concern
- Maintaining a sufficient capital base to support business development

Capital risk was mitigated during the year by approving thresholds for capital adequacy at board level and managing capital on a monthly basis within these parameters on a group and entity level.

The parameters are set using a "Red, Amber, Green (RAG)" status indicator and a threshold above the minimum requirements set by the regulator has been applied as follows.

Descriptor	RAG status Red	RAG status Amber	RAG status Green
– Regulatory capital adequacy compared to minimum Regulatory capital adequacy			
Capital Adequacy Ratio (K0000201) (Minimum 10% per regulator)	<12.5%	12.5–14.5%	>14.5%
Leverage Ratio (K0000202) (Minimum 6% per regulator)	<7%	7%–8%	>8%
– Tier 1 capital (K0000203) (Minimum 7% per regulator)	<8%	8%–9%	>9%

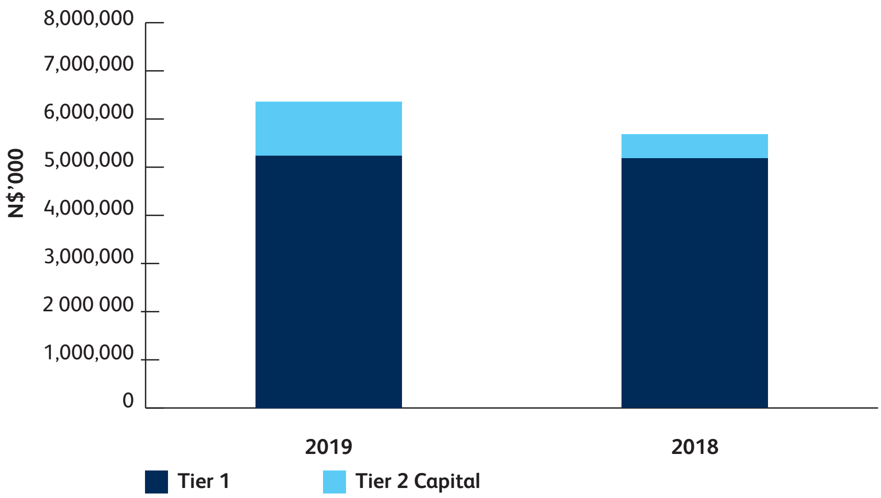
Capital adequacy is calculated and reviewed and challenged at ALCO level on a monthly basis. Any emerging risks are managed proactively.

Capital risk continued

Key risk indicators

Key regulatory capital figures	2019	2018	Variation
Tier 1 ratio	**12.3%**	13.3 %	(7.7 %)
Total capital ratio	**14.9%**	14.6 %	2.1 %
Leverage ratio	**10.9%**	11.5 %	(5.3 %)
Tier 1 (N$'000)	**N$5,238**	N$5,185	1.0 %
Total capital	**N$6,360**	N$5,685	11.9 %
Risk-weighted assets (RWA)	**N$42,568**	N$38,935	9.3 %
Tier 2 capital	**N$1,122**	N$500	124.5 %

Total capital – Capricorn Group



More information

Read more about the composition of regulatory capital and the ratios of the group for the year ended 30 June 2019 in the summary in note 3.7 of the consolidated annual financial statements from pages 151 to 287.

Priorities for 2019 and progress made

A key priority is to comply with the new Basel III ratios to be implemented in Namibia. However, Basel III has not been fully implemented in Namibia. Bank Windhoek currently adheres to the required ratios for Basel III in the anticipated regulation.

Conducting an effective internal capital adequacy assessment process (ICAAP) and high-quality regulatory reporting were priorities. The first ICAAP regulatory report was submitted for Bank Gaborone and we maintained high-quality ICAAP analysis and reporting for Bank Windhoek and Cavmont Bank.

All ICAAP reporting was completed and used for proactive risk management in all entities.

Future focus areas

Remain well capitalised while ensuring that all entities maintain an optimal capital position.

Material matters related to this risk

Credit risk management and mitigating losses due to bad debt

Credit risk

Definition	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 liquidated, and the exposure paid off or written off.
Governance oversight	Credit risk is monitored at and managed by the entity credit risk forums, EMT and risk committees, board audit and board risk and compliance committees.
How we mitigate this risk	The economic environment in southern Africa remained under pressure. In addition to the economic downturn, the southern African region is facing a severe and prolonged drought, which is placing additional pressure on clients and the economy. Namibia has experienced 12 quarters of negative GDP growth; the general economic slowdown continues to have a negative impact on household income and loan repayments. As a result, the non-performing loans (NPL) ratio has further deteriorated. In Botswana, the NPL ratio deteriorated in line with market movements, mainly due to over-indebtedness of individuals in the market, pressure on small-business owners and government contracts that are under pressure. In Zambia, the NPL ratio remained stable. Clients' arrears status is being managed proactively. The credit department, with the assistance of business units, is taking the necessary additional measures to ensure that credit risks are proactively managed and mitigated. IFRS 9 has been effectively implemented by all countries, and the models developed for IFRS 9 serve as additional tools for the proactive management of credit risk.
	Credit risk management process Credit risk is managed by monitoring the quality and concentration risk of the overall portfolio on an ongoing basis. Analyses, predictive models and stress testing are used to enhance the understanding and improve the management of credit risk. Continued focus will be placed on managing the Environmental and Social Management System (ESMS) and using it in the loan application process to ensure responsible, sustainable lending. In addition to the existing credit management and collections processes, we also focused on the following additional measures to mitigate increased credit risk: • Efficiency of the collateral and collections processes • Use of the call centre and outsourcing for collections • Additional capacity in key areas • Incentivising performance with regard to NPL ratios and IFRS 9 provisions • Developing monitoring and predictive tools to help prevent the deterioration of irregular accounts • Automating the credit application and arrears management processes • Client-focused rehabilitation, client visits, recovery strategy and applicable employee training • Proof of concept development using machine learning to predict arrears • Developing portfolio-level indicators to assist with credit portfolio management (group linking, family trees, sector classification codes) • Researching the impact of the drought in Namibia

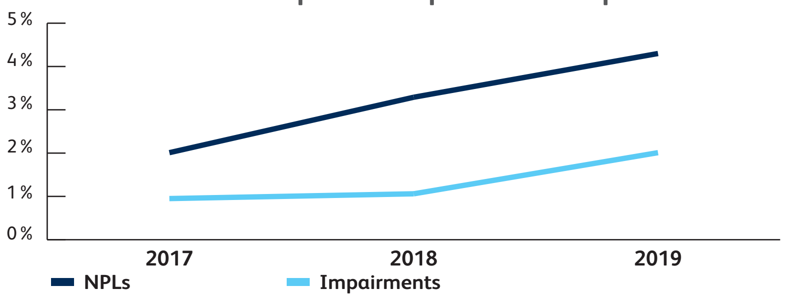
Credit risk continued

Key risk indicators

Key regulatory capital figures	June 2019	June 2018	June 2017
NPL as a percentage of gross loans and advances (%)	**4.14%**	3.33 %	2.22 %
IFRS 9 stage 3 provision/specific impairment provision (N$'000)*	**508,727**	258,411	191,412
Impairment charges in income statement (N$'000)	**114,547**	80,840	57,998

* *2019 saw a substantial increase mainly as a result of the implementation of IFRS 9 that adopts a forward-looking model, rather than an incurred-but-not-reported model.*

Total capital – Capricorn Group



More information

Read more about credit risk in the section on material matters from page 52.

Priorities for 2019 and progress made

- Focus was maintained on NPLs, as well as early-warning mechanisms
- Portfolio-level analysis and credit risk management were enhanced with a focus on risk-adjusted profitability measures and optimised IFRS 9 provisions
- Oversight of the group credit risk framework was improved
- Client scoring was introduced at Bank Gaborone
- At Cavmont Bank, monitoring and proactive management improved NPLs
- Bank Windhoek is ready for Basel III although the Bank of Namibia has not implemented Basel III yet

Future focus areas

- Optimise credit processes further and investigate the possibility of introducing an automated credit application process
- Increase focus on developing portfolio-level tools to improve credit risk monitoring, profit optimisation and concentration risk management
- Further enhancement of the credit risk framework and portfolio analyses

Material matters related to this risk

Credit risk management and mitigating losses due to bad debt

Reputational risk

Definition	Reputational risk is mainly a consequence of the realisation of other risks. It is the risk of failure to understand, identify or manage events that impact negatively on the group's reputation. The group has no appetite for conduct that places its reputation at risk.
Governance oversight	The group and subsidiary boards receive reports on material reputational risk issues via the BARC or board risk committee (as the case may be). Quarterly reputational risk profiles are compiled for all entities and reported to the group BARC.
How we mitigate this risk	A full-day training programme on media skills, crisis management and presentation skills were presented by a specialist to spokespersons, the media and communication practitioners of all our subsidiaries. Reputation risk management best practices as well as tips on dealing with a crisis from a communication and media perspective formed part of the training programme. GPRO oversight of reputation risk management and reporting of subsidiaries was enhanced. Crisis communication plans and relevant policies, including a Communication and Media Policy, was tested during a simulation exercise overseen by the Bank of Namibia.
Key risk indicators	Key risk indicators measured by the PROs of the subsidiaries include: • Percentage of negative, neutral or positive reporting on social media • Number of incidences not reported which had or could have had a reputational impact • Customer service survey results • Number of customer complaints • Percentage of negative media reports on the subsidiary per month
More information	Read more in the Group chairman's message from page 6 and the BSEC report from page 117.
Priorities for 2019 and progress made	• The results of a brand audit to test perceptions of stakeholders about the Capricorn Group brand was presented in March 2019. Potential risks and opportunities identified in the research will be incorporated into specific action plans. • A compliance audit was conducted on the application of the group's brand manual, and corporate identity guidelines on the banking brands and gaps were remedied. • The group's strategic stakeholder engagement plan was reviewed and enhanced, which resulted in several stakeholder engagements that support our brand position of being Connectors of Positive Change. • Internal awareness was created on reputational risks combined with increased GPRO oversight in the management and reporting of reputational risk issues. • An online community (social media) guideline for employees was launched, accompanied by an animation video. These are used at training interventions and during the induction of new employees.
Future focus areas	• Monitor compliance with the new brand manual (visual identity guidelines) and endorsement strategy among all entities • Implement the brand and communication strategy to address the risks and opportunities associated with the Capricorn brand • Support the building of a strong ethical culture through employee communication and engagement initiatives • Maintain a strong focus on the implementation of the group's strategic stakeholder engagement plan
Material matters related to this risk	Ethical leadership, management and business Financial and cybercrime/ cybersecurity Meeting customer needs and expectations Demand for specialist skills driving focused development, training and diversity Responding to a changing regulatory and operating context

Compliance risk

Definition	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.
Governance oversight	Monthly reporting to risk committees and a quarterly compliance report to the entity and group board risk and compliance committees.
How we mitigate this risk	As a leading financial services group, we face complex challenges to ensure that our activities comply with local legislation, regulations and supervisory requirements and the relevant international standards. The compliance function identifies, assesses, advises, monitors and reports on the compliance risk of the group and its subsidiaries with core legislation, as well as legal risk in terms of the potential impact of changes in laws and regulations.
Key risk indicators	Regarding the imposition of fines and penalties by regulators, from all group entities, Bank Gaborone received a fine of BWP259,000 for non-compliance with internal policies and procedures on the onboarding of clients.
More information	Read more in the section on material matters from page 52.
Priorities for 2019 and progress made	• A compliance monitoring plan has been approved for the 2019/2020 financial year • Sanction screening systems and processes have been enhanced
Future focus areas	• Automation of AML/CTF/CPF processes • Embedding of compliance monitoring • Identifying and resolving data quality issues that are preventing compliance
Material matters related to this risk	Ethical leadership, management and business Financial and cybercrime/ cybersecurity Demand for specialist skills driving focused development, training and diversity Responding to a changing regulatory and operating context

RISK REPORT continued

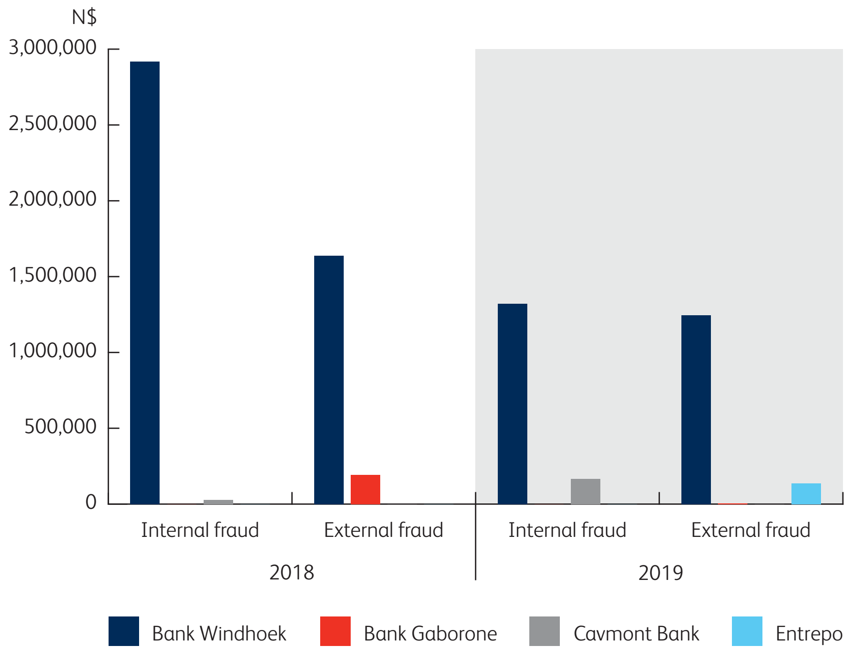
Finance and tax risk

Definition	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.
Governance oversight	Monthly reporting to management committees and quarterly reporting to board audit committees.
How we mitigate this risk	Finance and tax risks are low, and the risk profile has remained stable throughout the year. The risk is mitigated through the application of generally accepted accounting practices and standards and adhering to local statutory reporting requirements which are well documented and for which the group has established and robust processes in place.
Key risk indicators	• Statutory reporting deadlines missed • Internal and external audit findings • Losses due to penalties
Priorities for 2019 and progress made	The group has improved financial reporting from Cavmont Bank and maintained standards throughout the rest of the group.
Future focus areas	• Optimising finance processes, especially the budget process and methods for inter-group fees • Automation of project accounting and reporting • Standardisation of management account reporting across the group
Material matters related to this risk	Responding to a changing regulatory and operating context Credit risk management and mitigating losses due to bad debt

Financial crime

Definition	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.
Governance oversight	Monthly risk reports to risk committees. A quarterly risk report is compiled from the subsidiary information and reported to the group risk committee and BARC.
How we mitigate this risk	There has been a significant decrease in financial crime losses throughout the group against the background of deliberate efforts to reduce losses such as the group-wide implementation of Risk Culture Building Awareness training, the ethics strategy launch, fraud awareness created on social media platforms, the introduction of EMV-compliant chip cards for all card products and SMS notifications for all debit transactions. The group has developed risk management frameworks that are based on comprehensive risk assessments. The frameworks adhere to standard practices for Operational Risk in respect of risk and control assessment, key risk indicator monitoring, risk incident reporting and issue remediation. Financial crime risk is managed through proactive and reactive methods. Proactive methods use technology to identify patterns of behaviour, whereas reactive methods involve forensic investigations. The group employs specialists that are dedicated to combating financial crime. Activities to combat risks associated with money laundering, tax evasion and financing of terrorist activities are regulated, and the group has developed the necessary compliant processes.

Financial crime continued

Key risk indicators	
Progress in 2019	• The GRC system implementation was completed. • The Risk Culture Building Awareness initiative was successfully launched. The first phase included awareness training at all levels in the group.
Future focus areas	• Focus on an information security risk and control framework • Enhance the proactive fraud prevention capabilities
Material matters related to this risk	Financial and cybercrime/ cybersecurity Ethical leadership, management and business Demand for specialist skills driving focused development, training and diversity Enhancing and optimising management and operational systems

RISK REPORT continued

Legal risk

Definition	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.
Governance oversight	Monthly risk reports to risk committees. A quarterly risk report is compiled from the subsidiary information and reported to the group risk committee and Group BARC.
How we mitigate this risk	The legal risk profile has remained stable and within appetite during the year. The group has developed a risk management framework to manage legal risk. The framework adheres to standard practices for operational risk in respect of risk and control assessment, key risk indicator monitoring, risk incident reporting and issue remediation.
Key risk indicators	Losses
Priorities identified for 2019 and progress	Embedding the legal system in Namibia and initiating the deployment of the system in Botswana.
Future focus areas	Maintaining the legal risk framework in all jurisdictions
Material matters related to this risk	Responding to a changing regulatory and operating context

Operations risk

Definition	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 as a result of poor physical security are examples of this risk.
Governance oversight	Monthly risk reports to risk committees. A quarterly risk report is compiled from the subsidiary information and reported to the group risk committee and Group BARC.
How we mitigate this risk	There has been a significant decrease in the operational risk losses in the banking subsidiaries against the background of deliberate efforts to reduce losses due to errors and the group-wide implementation of Risk Culture Building Awareness training. Operations risk is managed according to the standardised approach to operational risk management under Basel II. Qualitative and quantitative tools are applied to identify and assess operations risks.
Key risk indicators	• Losses • Successful completion of integrated recovery tests
Priorities identified for 2019 and progress made	• Progress was made with the implementation of the business continuity framework, and by 30 June 2019 only four business units had not completed the full implementation. • The control environments for cash management and physical security were improved. • The governance risk and compliance system was implemented, which supports the operational risk management process.
Future focus areas	• Completion of the business continuity framework implementation • Data quality and process optimisation
Material matters related to this risk	Financial and cybercrime/ cybersecurity; Ethical leadership, management and business; Meeting customer needs and expectations; Responding to a changing regulatory and operating context; Enhancing and optimising management and operational systems; Fintech, insurtech and evolving digital assets

People risk

Definition	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.
Governance oversight	Monthly risk reports to risk committees. A quarterly risk report is compiled from the subsidiary information and reported to the group risk committee, Group BARC and the Group BHRC.
How we mitigate this risk	The people risk profile has improved during the year with key positions being filled in the IT department and at Cavmont Bank, continued focus on leadership development and talent and the improvement of various human capital processes including recruitment and performance management. The group has developed a risk management framework to manage people risk. The framework adheres to standard practices for operational risk in respect of risk and control assessment, key risk indicator monitoring, risk incident reporting and issue remediation.
Key risk indicators	• Vacancies in key positions • Leave and overtime • Affirmative Action measures (Namibia only)
Priorities identified for 2019 and progress	• The Risk Culture Building Awareness initiative was successfully launched. The first phase included awareness training at all levels in the group. • Improved performance management process supported by technology. • Key positions in Cavmont Bank and IT filled.
Future focus areas	• Embedding the technology implemented during 2019 • Process optimisation and measurement
Demand for specialist skills driving focused development, training and diversity	Ethical leadership, management and business

Technology risk

Definition	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.
Governance oversight	Technology risks are reported to subsidiary management risk committees. Quarterly risk reports are submitted to the subsidiary board risk and compliance committees, the group risk committee and BARC. Material technology risks are reported to the group board IT committee.
How we mitigate this risk	The information security and IT risk and compliance teams work closely with the technology GPRO and subsidiary PROs to identify risks that are communicated to members of management who are responsible for executing remediation plans. Informal and unstructured engagements are held daily, and information provided by the newly created network operations centre helps to ensure that pressing matters of the day are adequately and promptly addressed. In addition, current level 2 risks, including but not limited to cybersecurity, vendor management and non-compliance to IT standards and policies, are discussed at management meetings. These, along with other risks, are tracked and reported within the risk governance structures. Group IT is committed to maintaining a standardised architecture across the group to minimise threats and the effort required to support and maintain the systems of all the subsidiaries. International frameworks and standards from ISO, NIST and ISACA are used to augment and support internal processes, standards and policies.
Key risk indicators	The IT function maintains several key indicators, which include: • High-severity incidents • System uptime • Cyber attacks • Disaster-recovery failures • Support call metrics • IT change metrics
More information	Read more about IT governance in the governance report on page 83.
Priorities identified for 2019 and progress made	• A full data centre recovery capability was built and successfully tested in Botswana. In Namibia, disaster recovery was performed successfully over a two-week period in 2018. Improvements to disaster recovery for Namibia and Zambia are in progress. • Alternative network connections have been implemented for identified branches in Botswana and Namibia. • The adoption of the Agile methodology has greatly increased the rate of project delivery as well as the relevance of the projects delivered regarding the strategy. • Service level processes are being embedded. • Group IT has focused on reducing the complexity and single point of failure for the banks' internal and external network equipment and connectivity. Special focus on automated recovery and increased external service availability has been introduced to ensure reduced recovery time in the event of network and internet failures.

Technology risk continued

Future focus areas	• Standardisation of technologies used across the group • Information security • Enhanced vendor management • Continued focus on strengthening cybersecurity • System stability throughout the group ecosystem • Embed the Agile methodology across the group
Material matters related to this risk	Financial and cybercrime/ cybersecurity Fintech, insurtech and evolving digital assets Enhancing and optimising management and operational systems

Investment risk

Definition	The risk posed by applying a specific investment view given a certain macroeconomic and/or entity-specific view in portfolios and mandates which we manage on behalf of clients.
Governance oversight	Monthly performance and attribution meetings, monthly credit meetings, monthly economic meetings, monthly asset allocation meetings. Continuous portfolio-specific engagement. Monthly risk reports to above-mentioned committees. A quarterly risk report is compiled from the subsidiary information and reported to the group risk committee and BARC.
How we mitigate this risk	By establishing clear guidelines per portfolio based on a strategic allocation and performance risk budget.
Key risk indicators	• Interest rate duration • Spread risk allowance • Single-party exposure limits • Credit and liquidity ratings per instrument aggregated within each mandate • Maximum term limits if applicable • Performance measurement against peers and benchmarks/target returns
Progress in 2019	The review of relevant matrices and oversight continued during the year.
Future focus areas	Expand the scope of credit analysis
Material matters related to this risk	Ethical leadership, management and business Enhancing and optimising management and operational systems

REMUNERATION REPORT

Part one: Background statement

Introduction

The Capricorn Group board has embraced King IV™ and supports the shift to an outcomes-based approach to governance, where remuneration contributes to positive outcomes for all stakeholders.

This report reflects our journey towards the full application of remuneration disclosures as required by King IV™. We are committed to remuneration that achieves the four outcomes and will continue to align our practices and enhance our disclosure accordingly.

This report sets out the Capricorn Group remuneration philosophy and policy (the policy) and its implementation during the 2019 financial year. The policy 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. PricewaterhouseCoopers (PwC), whom the Group board remuneration committee (Remco) considers to be independent and objective, annually reviews and advises Capricorn Group on remuneration. Benchmarking practices are consistently applied across the group.

Attention was paid to the setting of the performance conditions for the long-term incentives and, consistent with the previous year, we have decided to disclose the performance conditions in this report. We are confident that the targets we have set for our performance conditions will stretch management, requiring strong company performance to unlock rewards for participants. The Remco also considers the qualitative measures associated with the strategies of the various entities as part of the overall performance conditions.

Consistent with previous years, we strive for appropriate transparency of our executive remuneration policies and practices and again present a three-part report. The three-part report contains the background and context to our remuneration approach and governance in part one, our forward-looking remuneration policy in part two and the actual implementation of our policy for the year under review in part three. This allows shareholders to observe the way our stated policy translates into actual outcomes for senior management and executives.

Governance of remuneration

Remuneration is governed by the Remco. Details about the committee's roles and responsibilities are available in the governance report from page 69. Executive directors attend committee meetings by invitation but are requested to recuse themselves when matters are discussed that concern them.

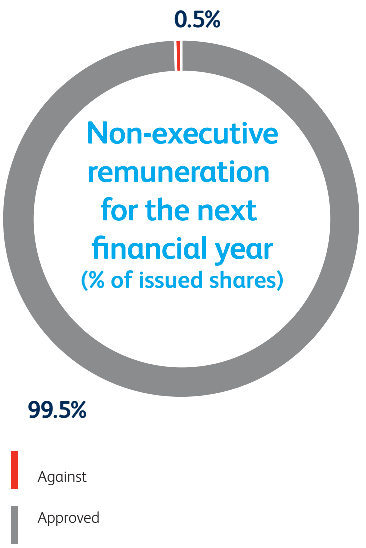
The Remco confirms that it has discharged the functions and complied with its terms of reference for the year ended 30 June 2019.

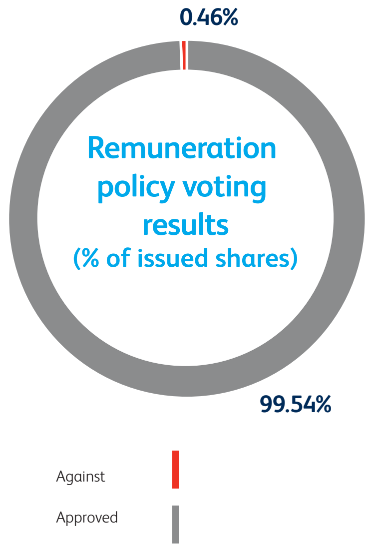
The key activities and recommendations of the Remco regarding remuneration during 2019 included the following:

- Benchmarking of executive directors' and executive management's total reward using the annual PwC survey primarily covering JSE-listed entities with the regional view as a subset
- 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 30 October 2018, 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 2019.





The voting results clearly show support for the remuneration policy. Accordingly, no changes were made to the policy. The actual implementation of the policy for the year under review is reflected in part three, allowing shareholders to observe the way 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 two of this report at the forthcoming AGM.

Part two: Overview of the group remuneration 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 group board human resources and remuneration committees take appropriate market benchmarks into account, while ensuring that sufficient emphasis is placed on pay for performance. The group board human resources committee is responsible for the remuneration of general employees while the focus of the Remco is on executive management, managing directors and non-executive directors. This approach helps to attract, engage, retain and motivate key employees while ensuring that 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 is evident.
- Manager discretion – Management discretion is central to the Capricorn Group's remuneration philosophy and is based on the requirement that the reward must always be based on merit.
- Variable pay component – The variable pay component of the 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 a clear

differentiation between performers and non-performers. Performance measures are an inclusive collective process that focuses on both the "what" and the "how". The "what" is measured using an approach that focuses on the 5Cs: Company, Colleague, Citizenship, Conduct and Customer. The "how" is measured in terms of The Capricorn Way and how the employee lives the behaviours. 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 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 2018 increase cycle to address any potential gaps between gender and race, as well as the complexity of work. We are comfortable that we are applying leading practices across the region.

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. Benefits may also include mortgage bond interest subsidies and 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 (STI) plan	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 on page 113.
	Long-term incentives (LTIs)	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. 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. Full ownership of these shares vests after three to five years.

Annual remuneration adjustments are effective on 1 September every year 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. The following aspects are considered:

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

Short-term incentives (STIs)

The group has a short-term incentive plan which aligns with market best practice in the industry and operates in the same manner for all employees in 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 STI 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 an 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 can 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 the 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. The vesting period is three years.

Conditional share plan (CSP)

Terms	Detail
Purpose	To attract, retain and reward selected employees who can 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 the 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 the overall company limit at any one time.
Performance conditions	The performance condition applicable to the performance-based awards is the 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.

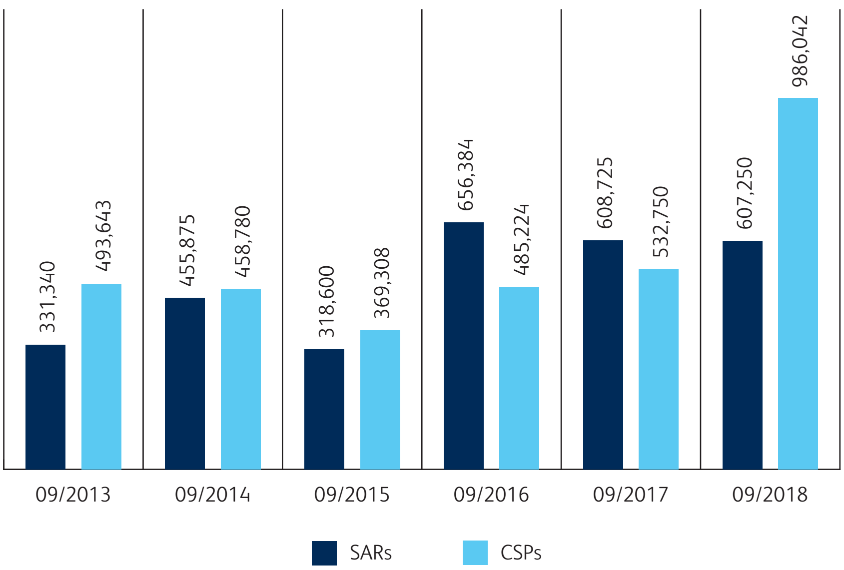
NED fees reflect the directors' roles and membership of the board and its committees. The NED fees have been benchmarked against the average of the median and upper quartile of medium-cap financial services companies listed on the JSE.

The resolution relating to non-executive directors' fees for the 2019 financial year can be found in the notice of the AGM, available online.

Part three: Implementation report

Remuneration paid

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 2018 was 1,512,750 (September 2017: 1,137,175).

Dividends paid under the share benefit scheme

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

Dividends to the value of N$2,175,300 were paid to 430 employees in September 2018 (September 2017: N$2,275,200 to 430 employees).

Compensation paid to key management

	Group		Company	
Executive management team	**2019 N$'000**	**2018 N$'000**	**2019 N$'000**	**2018 N$'000**
Salaries	**48,327**	37,692	**9,229**	5,315
Short-term incentives	**19,545**	19,191	**3,750**	3,325
Long-term incentives[1]	**11,127**	7,680	**6,434**	2,675
Contribution to defined contribution medical schemes	**1,832**	1,525	**195**	228
Contribution to defined contribution pension schemes	**3,170**	2,629	**360**	391
Share-based payment charges	**5,938**	5,658	**2,797**	1,673
Other allowances	**16,103**	11,901	**1,623**	3,701
	106,042	86,276	**24,388**	17,308

[1] *Expected value of the long-term incentives awards.*

Compensation paid to key management comprises remuneration and other employee benefits to the executive management team, which excludes executive directors' emoluments.

Executive directors' emoluments

	Salary N$'000	Short-term incentives N$'000	Long-term incentives[2] N$'000	Pension and medical contributions N$'000	Other allowances and fringe benefits N$'000	Total N$'000
30 June 2019						
Executive directors						
Prinsloo, M J	**1,906**	**2,250**	**915**	**195**	**2,187**	**7,453**
Esterhuyse, J J[1]	**1,339**	**1,200**	**427**	**160**	**653**	**3,779**
	3,245	**3,450**	**1,342**	**355**	**2,840**	**11,232**

[1] *This represents the full year remuneration.*

	Salary N$'000	Short-term incentives N$'000	Long-term incentives[2] 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	2,250	915	180	1,958	7,077
	1,774	2,250	915	180	1,958	7,077

[2] *Expected value of the long-term incentives awards.*

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

REMUNERATION REPORT continued

Non-executive directors' fees

	Directors' fees		
	Paid by company N$'000	Paid by subsidiaries N$'000	Total N$'000
30 June 2019			
Non-executive directors			
Black, K B	**342**	**214**	**556**
Brandt, J C	**264**	**397**	**661**
Fourie, D G	**745**	**949**	**1,694**
Gaomab II, H M	**256**	**–**	**256**
Menetté, G	**136**	**–**	**136**
Nakazibwe-Sekandi, G	**420**	**208**	**628**
Reyneke, D J	**408**	**–**	**408**
Schimming-Chase, E M	**222**	**–**	**222**
Swanepoel, J J (Chairman)	**1,800**	**2,206**	**4,006**
Total	**4,593**	**3,974**	**8,567**
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

Directors' fees consist of a quarterly retainer and a fee for attendance of meetings. No fees relating to other services (e.g. commission) were paid during the 2019 and 2018 financial years.

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

Gerhard Fourie
Chairman: Group board remuneration committee

BOARD SUSTAINABILITY AND ETHICS REPORT

Capricorn Group strives to be a responsible corporate citizen in the territories where we operate. The board sustainability and ethics committee (BSEC) has been mandated to provide oversight and stewardship of this role.

Our commitment to sustainability means taking a long-term, holistic view that considers the perspectives of all stakeholders. Our sustainability framework provides the structure and processes through which we create enterprise-wide awareness and ensure aligned thinking and practices.

The BSEC's terms of reference are set out on page 82 of the governance report. Read more about the composition of the committee on page 82 and refer to pages 72 to 75 for profiles of the committee members.

Milestones for 2019

- Approval of the group's new corporate social responsibility (CSR) vision and philosophy
- Agreement with relevant stakeholders on the establishment of the Capricorn Foundation
- Approval of a three-year ethics strategy and plan
- Incorporation of ethical leadership, management and business as a material matter for the group and the tracking of related actions

Committee matters overview

The BSEC was established as a board committee in 2016. To assist the committee in executing its mandate and increasing the committee's level of independence, a special adviser, Dr Ven Pillay, was appointed as a subject matter expert for one year.

The group social investment policy, which guides corporate social investment activities across the group, was reviewed and revised to reflect the new vision and philosophy of the group on CSR. The policy will be submitted for approval by the board in September 2019. According to the policy, each entity contributes CSR funds as part of its operational budget, with a target 1% of net profit after tax.

Some of the initiatives of the committee included an assessment to determine Namibia's living wage and whether employees in Namibia were paid according to those levels. The assessment confirmed that certain employees were earning below the living wage and as a result management took a decision to effect adjustments over a period of two financial years, namely 2018 and 2019, in order to bring pay of affected employees in line with the national living wage.

The group explored launching a carbon footprint project in 2018. However, we chose to invest resources in promoting and expanding green lending as set out in Bank Windhoek's green bond framework, published in December 2018 to maximise our positive impact and align our sustainability efforts closer with our core business. Read more about the green bond in the Group CEO's report from page 24.

The committee also recognised that, although the group is committed to the United Nations' sustainable development goals (SDGs), further work needs to be done to prioritise and align the group's efforts with the goals as well as with national priorities.

The committee reviewed key performance indicators related to customers, procurement, society and the environment. Stakeholder engagement reports and forward-looking stakeholder engagement plans were also discussed with an emphasis on promoting collaboration between the different subsidiaries in the group.

Corporate social responsibility vision and philosophy

In the previous financial year, the committee directed that extensive work be done on mapping the journey from corporate social investment (CSI) to CSR. This included a critical review of the internal and external practices, the group's CSI model and the beneficial impact of CSI programmes.

As a result of this work, a new CSR vision, philosophy and strategy was formulated and approved by the board in November 2018.

BOARD SUSTAINABILITY AND ETHICS REPORT continued

Capricorn Group CSR vision

To be an inspiring Connector of Positive Change by creating economic value in a responsible way that creates sustainable opportunities for advancing and improving the economic and social conditions in the communities in which we operate.

Capricorn Group CSR definition

Corporate Social Responsibility (CSR) refers to our sense of responsibility towards the community and the environment in which we operate and commitment to integrate social and environmental concerns into our group operations. This sense of responsibility helps us to be socially accountable to ourselves and our stakeholders and to minimise any negative effects on society so that we make an overall positive impact. For us, Corporate Social Responsibility means: Doing the right thing, for the right reasons.

Capricorn Group CSR philosophy

The group sees itself as an integral part of the broader society in which it operates, affording the organisation a standing in society with rights, responsibilities and obligations to the communities and regions in which it operates.

Essentially, Capricorn Group needs successful communities to create demand for our products and to provide a suitable environment in which we can operate sustainably.

Similarly, communities depend on the Capricorn Group's success and sustainability, which enables the group to create sustainable value for all its stakeholders. This will enhance the competitiveness of the Capricorn Group while simultaneously advancing and improving the economic and social conditions in the communities in which it operates.

As a group, we would like to make a deep and lasting impact in areas that are aligned with our strengths and competence.

Our philosophy is based on our commitment to creating economic value in a way that, in turn, creates meaningful value for society by addressing its needs and challenges. This shared value requires a deep understanding and appreciation of societal needs and is in line with the group's brand purpose of being Connectors of Positive Change.

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 and is supported through our aim to be open, transparent and accountable in reporting on our CSR activities and programmes and their impact.

The Capricorn Foundation

The board approved the establishment of the Capricorn Foundation in June 2019. It will be established and registered as a Section 21 company in Namibia in the next financial year. The foundation will focus its activities on Namibia and will have two primary areas of investment:

- Economic advancement
- Education and training

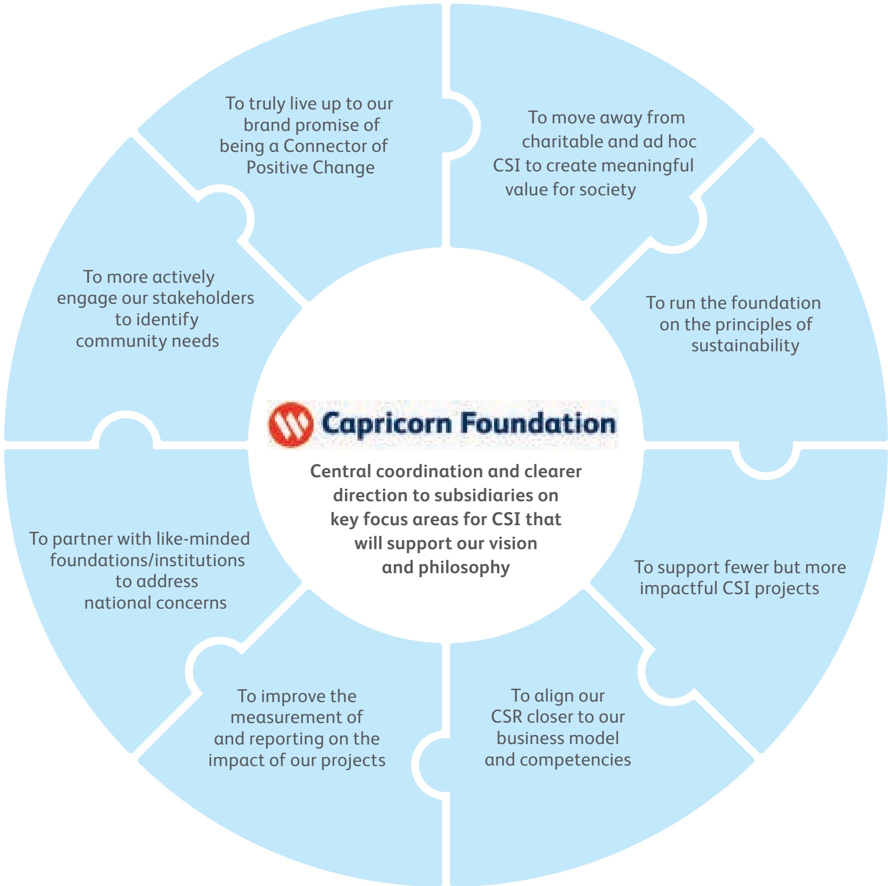
Three supplementary primary investment focus areas are:

- Sustainability programmes
- Vulnerability programmes
- Health

The Capricorn Foundation will have its own board and will report on its outcomes to the BSEC. The head of the foundation will be supported by a committee, which will consolidate CSR reporting from the different entities and in turn submit reports to the entity boards and the foundation. The head of the foundation will have functional reporting to and support from the group executive: brand and corporate affairs. The intention is not to duplicate the efforts of subsidiary companies. Each subsidiary will still have a portfolio of signature CSR projects that they support within the identified key focus areas, aligned with the group's CSR vision, definition and philosophy.

The foundation will be funded by contributions from subsidiaries and contributions by partner organisations. The group will carry the employment cost of the head of the foundation and administrative support. The contributions from subsidiaries will thus be 100% available for projects.

Capricorn Foundation outcomes



Capricorn Group ethics strategy

We believe that ethical conduct is the foundation for a sustainable business. The BSEC approved a three-year strategy and plan for the governance of ethics, in part based on the outcome of the ethics risk assessment that was conducted in March/April 2018.

Statement of ethical intent

We believe that good business and ethics go hand in hand. We are committed to doing the right thing. Our Code of Ethics and Conduct outlines how our values and ethics shape our business and the way we work. As a group we have no appetite for unethical conduct of business and we expect the board of directors, all employees and contractors to subscribe and adhere to the Group Code of Ethics and Conduct.

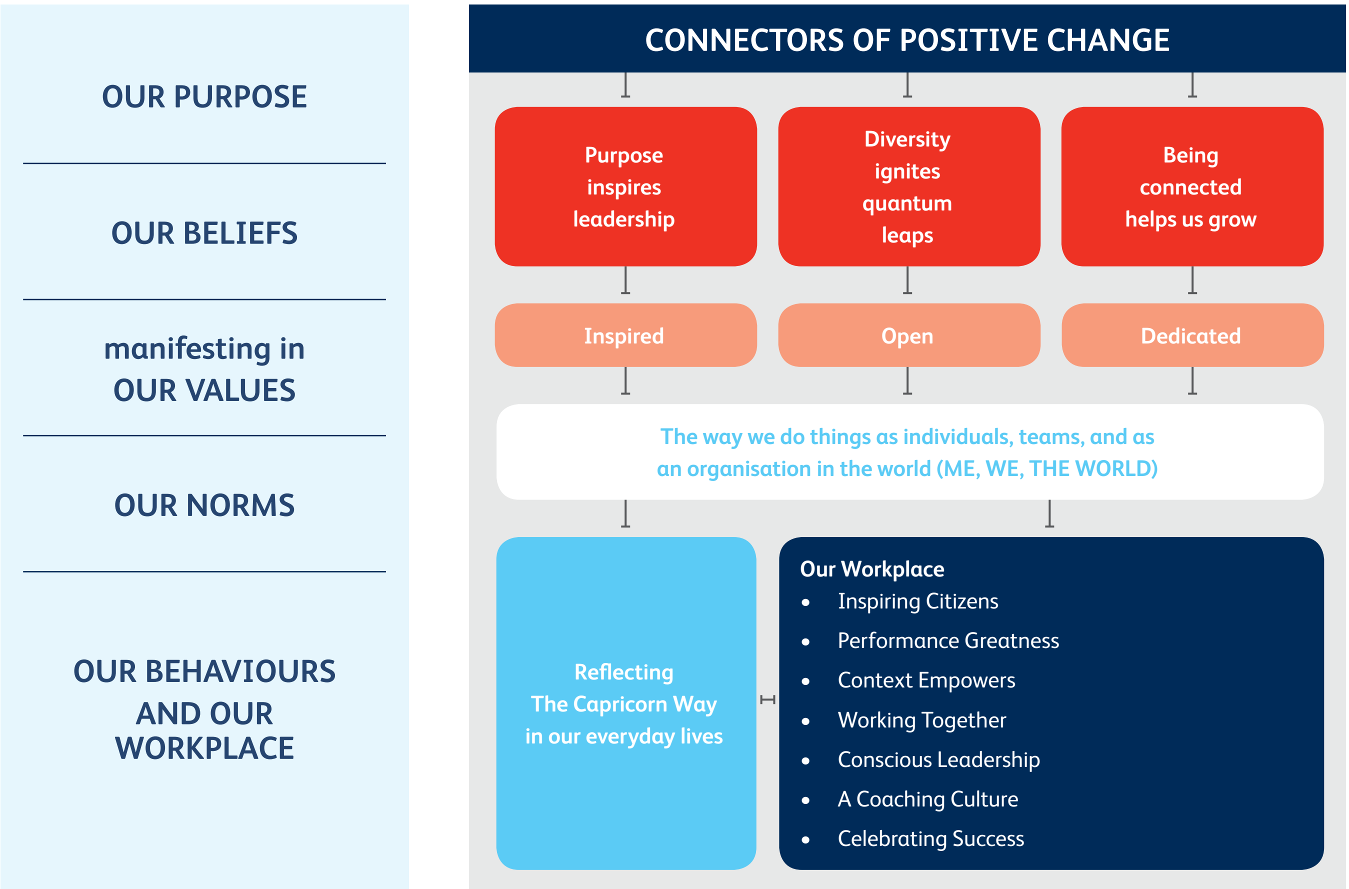
Capricorn Group purpose, vision and values

Vision

To be the most trusted and inspiring Connector of Positive Change through a highly relevant, convenient and responsive omni-channel network that enables opportunities to be created, financed, transacted and secured, wherever we operate.

Values

The following values drive our actions and decisions:

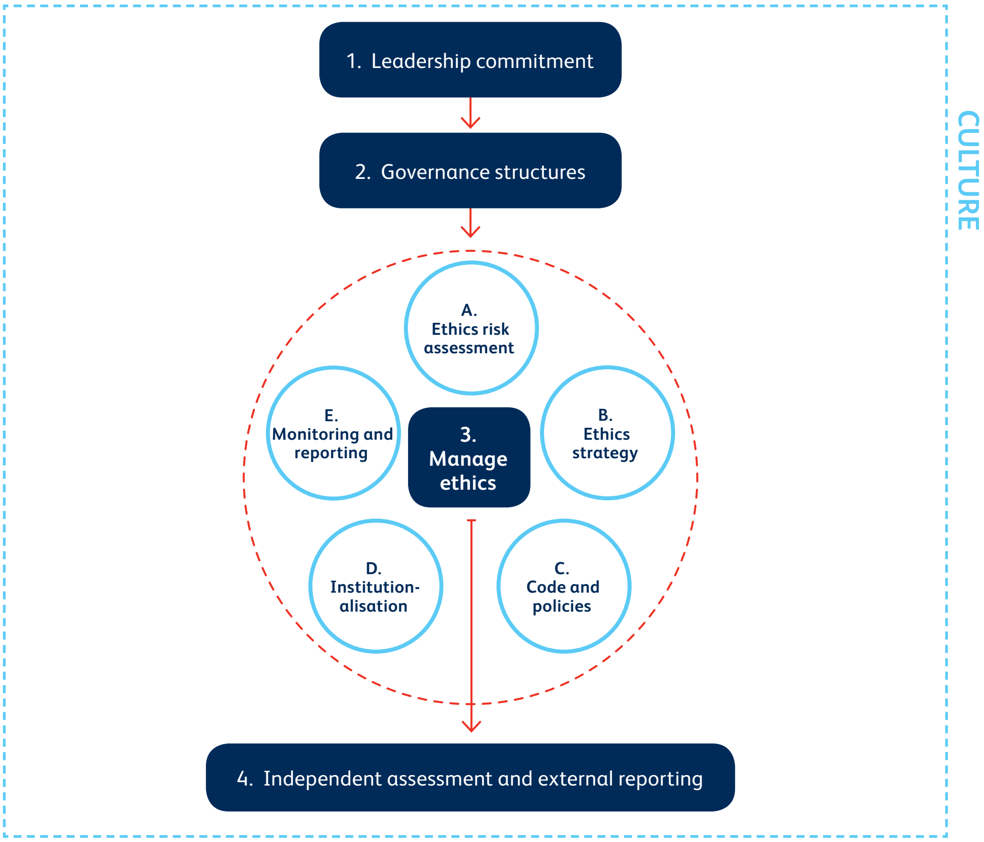


Ethics mandate

The board sustainability and ethics committee (BSEC) is constituted as a committee of the board of directors of Capricorn Group. The duties and responsibilities of the members of the committee are in addition to those as members of the board. The role and purpose of the BSEC is to provide an independent and objective body that will assist the board in ensuring that Capricorn Group and its subsidiaries remain good corporate citizens through the implementation of a sustainability and ethics strategy and reporting framework.

King IV™ recommends that the governing bodies of organisations "should lead ethically and effectively". The report further states that the "governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture". The Ethics Institute has developed a framework for the governance of ethics that incorporates the guidance given by King IV™ on ethics programmes, which the BSEC has adopted.

The following diagram gives a schematic overview of the ethics management framework.



Ethics strategy

In accordance with the requirements of King IV™ regarding ethics management and the mandate of the BSEC, a Capricorn Group ethics strategy is imperative to ensure that the BSEC fulfils its mandate and responsibilities, and contributes to the enhancement of the Capricorn Group's organisational culture. The desired outcome of the ethics strategy is an ethical organisational culture in which employees find it easy to do the right thing when no one is watching and embrace and live the organisational values set out above. Our organisational values inform our ethical vision, mission and management strategy.

Ethics vision

To create an ethical organisation where our stakeholders are motivated to live our values of openness, dedications and inspiration.

Ethics mission

Capricorn Group is dedicated to enhancing and sustaining ethical business practices through leadership commitment to ethical business conduct and by institutionalising ethical behaviour in the organisation.

BOARD SUSTAINABILITY AND ETHICS REPORT continued

Ethics management strategy

To give effect to our ethics mission, Capricorn Group has four strategic focus areas, namely:

- Leadership commitment to ethical behaviour
- Setting ethical standards
- Employee ethics awareness
- Managing ethics risks

Ethics focus area	Action	Outcome
Leadership commitment	Obtain leadership buy-in to put structures in place to facilitate the establishment of an ethical culture and demonstrate tone at the top	To attain increased maturity in the ethical culture in three years
Setting ethical standards	Clearly define the organisation's ethical standards through its Ethics Policy, values and ethics-related policies	To increase employees' knowledge of acceptable and unacceptable behaviour and ultimately reduce unethical behaviour
Employee ethics awareness	Promote and communicate Capricorn Group's ethical standards through leadership, training and awareness campaigns, as well as providing effective and trusted safe reporting mechanisms	To design and implement a three-year awareness and communication strategy to increase ethics awareness
Manage ethics risks	Manage ethics risks/opportunities as identified in the most recent ethics risk assessment	Identify and prioritise ethical risks/opportunities and implement a risk management plan with remediation actions

Sustainability

The group's sustainability philosophy is that 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 transparent and accountable in our reporting.

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, regional and local issues we intend to use all our business lines including banking, investment and asset management, finance and property finance to address the key sustainability challenges. In the period under review, Bank Windhoek was the first bank in the southern African region to issue a green bond.

Our sustainability strategy takes a holistic approach encompassing environmental, social and economic factors.

Bank Windhoek continued to apply its Environmental and Social Management System (ESMS) 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.

Material matters provide the group with a strategic perspective of risks and opportunities and assist the group in anticipating and addressing material risks to the strategy of the group. These matters were affirmed by our board and are set out on page 52.

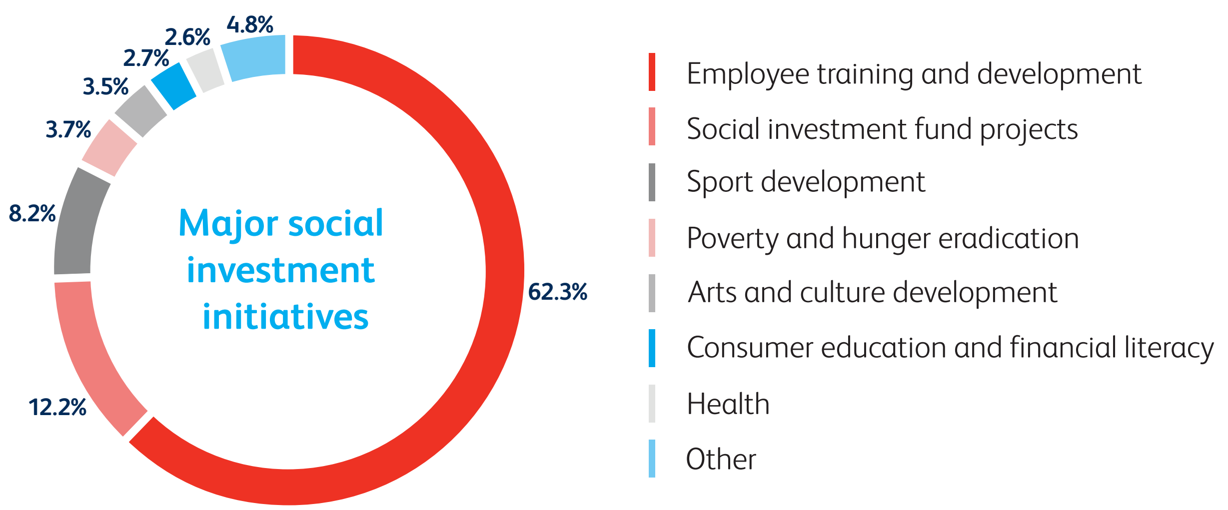
Internally, environmental sustainability is driven by a desire to implement sound environmental practices as part of The Capricorn Way. The main drive behind this perspective is to shape a connected and "aware" culture and to demonstrate a commitment to the environment (earth) while ensuring that the group is proactive in its response to changes in the availability of natural resources.

Bank Gaborone will adopt a formal sustainability strategy by 31 December 2019. The bank's sustainability philosophy aims to ensure that it positively impacts the environment within which it operates, including interaction with customers, regulators, the natural environment and stakeholders. Based on this philosophy, Bank Gaborone adopted initiatives focusing on, among others, managing the sustainable use of natural resources. This is achieved by measuring paper, electricity and fuel usage with savings targets. Bank Gaborone also relocated to a new head office building, which is in the process of achieving a green-star rating.

Our asset management company, Capricorn Asset Management (CAM), also supports the group's sustainability initiatives. CAM's primary focus in the past year was to drive the reduction of paper usage by promoting the online platform for instructions and by encouraging customers to receive their statements electronically. To date 69% of customers have been converted to electronic statements with 8.39% of transactions fully executed electronically.

Major social investment initiatives

Capricorn Group and its subsidiaries in Namibia, Botswana and Zambia invested more than N$25 million in internal and external social responsibility programmes and initiatives during the past year:



A key focus of the group was to promote employee volunteerism among employees. A total of five #Changemaker initiatives were organised, giving the employees in the group an opportunity to volunteer their time and personal resources to projects supported by the group in vulnerable communities.

Bank Windhoek's flagship project, the Bank Windhoek Cancer Apple Project, was named as one of the "global innovative projects of hope" by the 2018 World Cancer Congress. It was also showcased as an innovative fundraising model.

The project is in its 28th year and has raised more than N$20 million in aid of cancer patients. It is a multi-stakeholder effort between Bank Windhoek, the Namibia National Cancer Outreach Programme and a number of other partners.

From 2019 onwards, the project will focus on access to palliative care, pain management and the home-based care of palliative patients as key elements on the cancer journey. As part of the Bank Windhoek Cancer Apple Project a national cancer outreach programme was launched in May 2019 in the Zambezi region. The project runs until October 2019 and will conclude with a visit to the Karas region.

Bank Windhoek's successful Empathy Project involved all its employees throughout Namibia to the benefit of more than

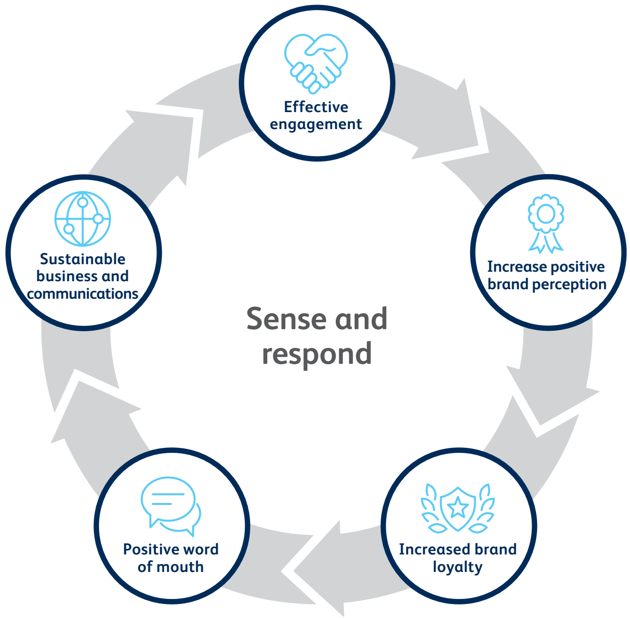
50 welfare and community projects. The Empathy Project strengthens the group's position as Connectors of Positive Change. Bank Windhoek continues to support a number of signature projects including the MSR Project that connects the unemployed with employment opportunities and Women@Work that trains and develops women in various skills including cooking, cleaning and frail care. In response to the call for aid to the farmers in Namibia, Bank Windhoek donated N$500,000 to the Dare to Care Fund that was established to help farmers affected by the persistent drought.

Through an adopt-a-school programme, Bank Gaborone's employees assisted schools with books, school uniforms, sanitary products and repainting of school premises. Bank Gaborone also runs a daily show called "The Wiz Kid Show" on one of the country's main stream radio stations. The show targets primary school children with an emphasis on financial education from a young age.

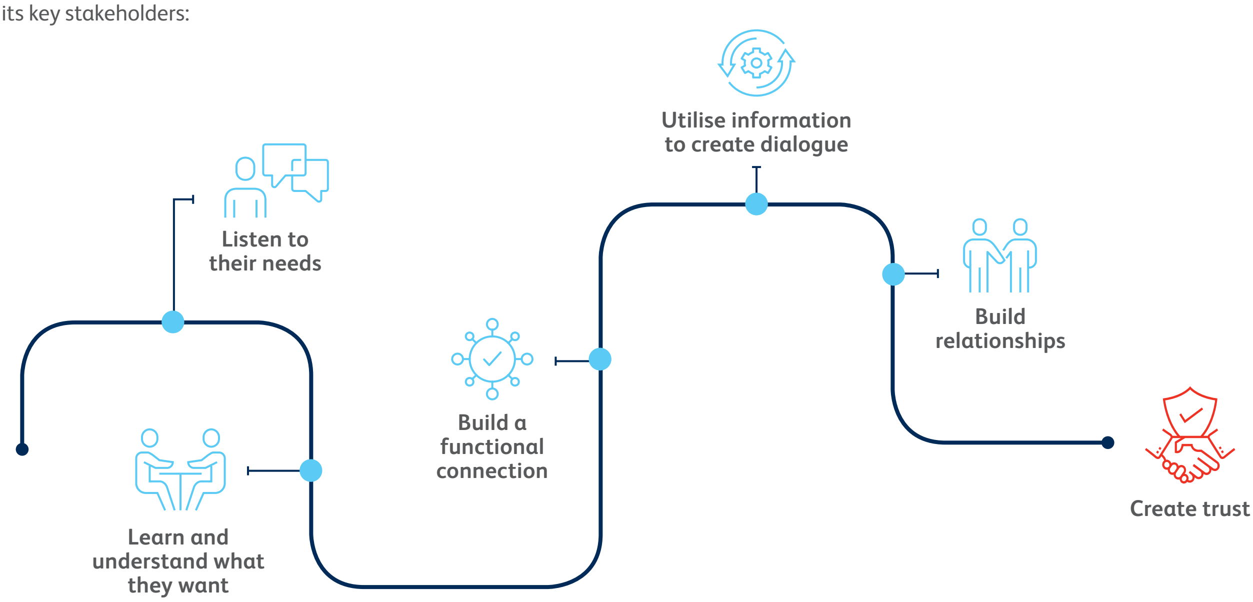
The Bank Gaborone Diabetes Apple Project and Journey of Hope raise diabetes and breast cancer awareness. Read more about Bank Gaborone's Diabetes Apple Project in the Group CEO's report from page 24.

Stakeholder engagement

The group matured its strategic stakeholder engagement plan to align with the material matters of the group. A key focus for the group was to promote collaboration between its subsidiary companies in hosting stakeholder events. The group believes that effective stakeholder engagement will lead to sustainable businesses and communities as reflected in the graph:



The ultimate objective of the group's stakeholder engagement initiatives is to build strong relationships that create trust between the group and its key stakeholders:



The group prioritises its stakeholder engagements by plotting stakeholders on an "influence and interest" grid. This helps us to identify the key stakeholders that have high influence and high interest in the group and to develop appropriate engagements with these stakeholder groups.

Capricorn Group's signature "Inspire" stakeholder events assemble over 250 guests per session and have gained popularity among employees, clients and stakeholders of the group subsidiaries. Four successful events were hosted under themes based on identified material matters and triggered conversations with stakeholders on current global and regional topics:

- "Transhumanism" explored the effects that blurred boundaries between man and machine will have on the workplace of the future
- "Overcoming obstacles" looked at navigating the responsibilities of everyday life to achieve our goals
- "Cybercrime and digital security" alerted stakeholders to the protection of their employees and companies against cyberbullies
- "Good governance" considered the regional fight against corruption – a current social ill

We also created a unique platform to engage with the Namibian government through scheduled minister lunches, where we engage with selected ministers on matters of shared interest.

Capricorn Group hosted five Namibian journalists who attended and covered the opening of the new Bank Gaborone head office, thereby supporting awareness of the group's regional footprint.

Capricorn Group's commitment to the UNGC principles

Capricorn Group reaffirmed its support of the 10 principles of the United Nations Global Compact (UNGC) 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 UNGC and its principles into business strategy, culture and daily operations.

Human rights

Human rights are enshrined in the Namibian constitution. Capricorn Group is committed to upholding human rights and the 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, the percentage of employees with disabilities in the workforce, racially disadvantaged permanent employees and racially disadvantaged persons in middle and senior management.

Read more about these aspects in the section on our material matters from page 52.

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 and equitable remuneration.

Read more about these aspects in the section on material matters from page 52 and the remuneration report from page 110.

Environment

The group's operations have limited direct environmental impact as a financial services provider. However, through lending activities, the group has an indirect impact on society and the environment. The impact on the environment is managed through the Environmental and Social Management System (ESMS) at Bank Windhoek, the Group Sustainability Framework and the Environmental and Social Risk Management (ESRM) Policy. The ESMS requires that loans are assessed for social and environmental impact, and due diligence must be performed on all loan applications with significant risk. Action plans are required where gaps have been identified in the environmental and social performance of a business. 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.

Read more about environmental aspects in the section on material matters from page 52 and the Group CEO's report from page 24.

BOARD SUSTAINABILITY AND ETHICS REPORT continued

Anti-corruption

Capricorn 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 King IV™ and 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 board audit, risk and compliance committee (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 includes a suppliers' code of conduct, which requires suppliers to adhere to standards of good conduct towards employees and 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.

No cases of corruption or bribery were reported or investigated within the group or against the group.

Read more about ethics in the group chairman's message from page 6, in the section on material matters from page 52 and in the governance report from page 69.

Future focus areas

- The establishment of the Capricorn Foundation
- Implementation of a new reporting template for subsidiaries to report on their CSR and stakeholder engagement initiatives with a focus on the impact that these initiatives have made
- Development of a reporting template for all subsidiaries on sustainability and ethics indicators
- Expanding the group's understanding of ethics and doing the right things in practice
- Tracking the appropriate actions to support ethical leadership, management and business as a material matter for the group

Reporting oversight

Members of the committee were involved in the development and approval of the Capricorn Group material matters, as set out on page 53. 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 annual report for approval to the board. The committee recommended the inclusion of the 2018 integrated report in annual feedback to the UNGC.

Compliance statement

There were no substantive areas of non-compliance with legislation and regulation, nor was any non-adherence with codes of best practice applicable to the areas within the committee's mandate brought to the committee's attention. 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.

Gida Nakazibwe-Sekandi
Chairperson: Board sustainability and ethics committee

11 September 2019

"We are improving our ability to predict customer needs, to anticipate their behaviour and to use our strong personal relationships to enhance their experiences." – Johan Swanepoel, Group chairman

Okavango Delta

ABOUT THIS REPORT

Our reporting approach and suite

This is the fourth Capricorn Group integrated annual report: a reflection on the value created by the group during the 2019 financial year from 1 July 2018 to 30 June 2019. The report is aimed at providers of financial capital but takes a holistic and stakeholder-oriented view of the environmental, social 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 15. Therefore, 97% of net profit after tax was derived from Namibia as reporting priority was given to Bank Windhoek as the significant contributor to the group.

The principle of materiality guided the content of this integrated annual report (read more about the process we followed on page 52). Additional information targeted at a wider audience including shareholders, investors, analysts and media, is available online at www.capricorn.com.na/Pages/Reporting-Centre.aspx as part of the full suite of financial reporting elements.

Element	Reporting dates
Integrated annual report with consolidated annual financial statements	30 September 2019
Online notice of annual general meeting	30 September 2019
Investor presentation	23 August 2019
Performance summary	30 September 2019
Interim results	Annually in February
Trading updates and NENS announcements	Continuously

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

Reporting frameworks

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

- NamCode/Namibian King IV™
- 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 also chosen to be guided in its reporting by the International Integrated Reporting Council (IIRC) <IR> Framework.

Forward-looking information

This report contains certain forward-looking statements regarding the results and operations of the 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.

APPENDICES

SHARE ANALYSIS AND DETAIL FOR 2019

Below is detail related to the Capricorn Group's share trading and profile as at 30 June 2019.

Shareholding analysis	2019	2018
Number of shares in issue	**519,184,399**	519,184,399
Number of shares traded	**13,144,003**	8,055,822
Value of shares traded	**207,702,375**	145,458,846
Closing price (N$ per share)	**16.00**	17.23
High (N$ per share)	**17.18**	18.18
Low (N$ per share)	**15.40**	16.90
Price-to-earnings ratio (HEPS)	**8.8**	9.5
Price-to-book ratio	**1.4**	1.6

Public and non-public shareholding	Number of shareholders	Percentage of total shareholders	Number of shares in issue	Percentage of issued share capital
Public	4,231	99.3	134,898,671	26.0
Non-public	28	0.7	384,285,728	74.0
Total	4,259	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	3,998	93.9	44,964,199	8.7
Corporate bodies	85	2.0	275,425,847	53.0
Nominees and trusts	149	3.5	170,769,333	32.9
Pension funds and medical aid societies	27	0.6	28,025,020	5.4

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	1,746	41.0	1,109,813	0.2
1,001 – 50,000	2,327	54.6	19,267,508	3.7
50,001 – 100,000	54	1.3	3,948,156	0.8
100,001 – 10,000,000	128	3.0	79,993,393	15.4
10,000,000 and above	4	0.1	414,865,529	79.9
Total	4,259	100	519,184,399	100

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 2019

	2019 N$'000	2018 N$'000
Direct economic value generated		
Interest and similar income	**4,740,554**	4,244,215
Impairment charges on loans and advances	**(114,547)**	(80,840)
Non-interest income	**1,359,484**	1,225,168
Share of joint arrangements and associates results	**76,332**	84,384
Attributable to non-controlling interest	**(85,410)**	(11,879)
	5,976,413	5,461,048
Economic value distributed		
To suppliers	**556,800**	516,915
To employees	**1,122,223**	959,206
Dividends to shareholders	**307,555**	346,744
Preference dividends	**48,986**	39,374
Interest and similar expenses	**2,607,681**	2,425,318
To providers of funds	**2,964,222**	2,811,436
Normal tax	**428,648**	325,659
Value added and other indirect taxes	**167,569**	135,019
Skills development levies	**8,446**	7,282
Stamp duty	**20,184**	16,616
To government	**624 847**	484,576
To the community	**25,487**	23,608
	5,293,579	4,795,741
Economic value retained for expansions and growth		
Retained income	**611,497**	554,345
Depreciation and amortisation	**102,343**	97,088
Deferred tax	**(41,843)**	(7,593)
	671,997	643,840
Regulatory reserves		
Credit risk reserve	**10,837**	21,467
Total value distributed and retained	**5,976,413**	5,461,048

“Capricorn Group performed well in difficult circumstances characterised by relentless pressure on consumers, expanding regulatory measures and fierce competition.” – Johan Swanepoel, Group chairman

South Luangwa National Park

"By delivering on our strategy, diversifying investment and keeping our focus on operational excellence, we will be able to continue creating value and contributing to positive change."
– Thinus Prinsloo, Group CEO

Chobe River

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

CONTENTS

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

for the year ended 30 June 2019

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 141 to 287 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.

Comprehensive insurance cover is in place as required by the Bank of Namibia BID 14 – Determinations on Minimum Insurance for Banking Institutions.

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 135 to 140.

The financial statements, set out on pages 141 to 287, were authorised and approved for issue by the board of directors on 11 September 2019 and are signed on their behalf:

J J Swanepoel
Chairman

M J Prinsloo
Group Chief Executive Officer

INDEPENDENT AUDITOR’S REPORT

To the members of Capricorn Investment Group Limited

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 2019, 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 141 to 287 comprise:

- the directors’ report for the year ended 30 June 2019;
- the consolidated and separate statements of financial position as at 30 June 2019;
- 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 notes to the company’s financial statements and 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.

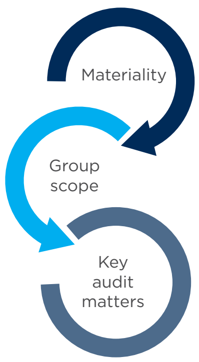
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the group in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants (Revised July 2016)*, parts 1 and 3 of the International Ethics Standards Board for Accountants *International Code of Ethics for Professional Accountants (including International Independence Standards) (Revised July 2018)* (Code of Conduct) and other independence requirements applicable to performing audits of financial statements in Namibia. We have fulfilled our other ethical responsibilities in accordance with the Code of Conduct and in accordance with other ethical requirements applicable to performing audits in Namibia.

Our audit approach

Overview



Overall group materiality

- *Overall group materiality: N$70,105,220, 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. Capricorn Investment Group Limited, Bank Windhoek Limited, Entrepo Holdings Limited, Capricorn Investment Holdings (Botswana) Limited and Capricorn Asset Management (Proprietary) Limited were identified as financially significant components.*

Key audit matters

- *Expected credit losses (“ECL”) on loans and advances and financial assets at amortised cost*

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; for example, 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$70,105,220*
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 public interest 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 the component's contribution to profit before tax or total asset value of the group. The significant components identified included Capricorn Investment Group Limited, Bank Windhoek Limited, Entrepo Holdings Limited, Capricorn Investment Holdings (Botswana) Limited and Capricorn Asset Management (Proprietary) Limited. These entities were subjected to a full scope audit. Entities included in our audit scope operate in Namibia, Botswana and Zambia. Full scope audits were also performed on non-significant components due to statutory requirements and analytical review procedures were performed over the non-significant associates.

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 judgment, 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)

To the members of Capricorn Investment Group Limited

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Expected credit losses (ECL) on loans and advances and financial assets at amortised cost

Refer to the key management assumptions note, note 4 (Critical accounting estimates and judgements in applying accounting policies), note 17 (Loans and advances to customers), note 14 (Financial assets at amortised cost) and note 3.2 (Credit risk) to the financial statements.

This key audit matter is applicable to the consolidated and separate financial statements.

At 30 June 2019, gross loans and advances amounted to N$38.9 billion against which allowance for credit losses of N$1.2 billion was raised for the group.

Gross financial assets at amortised cost amounted to N$897.2 million against which allowance for credit losses of N$36.9 million was raised for the group. Gross financial assets at amortised cost amounted to N$272.8 million against which allowance for credit losses of N$17.1 million was raised for the company.

The expected credit losses (ECL) was calculated by applying IFRS 9 – *Financial Instruments*, as described in the notes to the financial statements, which was adopted for the first time on 1 July 2018.

In calculating the ECL, the key areas of significant management judgement and estimation included:

- Determining whether evidence exists that there has been a significant increase in credit risk (SICR) since initial recognition of the loans and advances, by considering credit scores, back-stops and qualitative factors and determining whether a 12 month or lifetime ECL is recognised. Loans and advances move from Stage 1 to Stage 2 if there has been a significant increase in credit risk ("SICR") since initial recognition, based on relative score movements as per the Capricorn Group ("CG") master rating scale, or if more than 30 days past due.
- Determination of the write-off point. The group and company applies judgement in determining the point at which there is no reasonable expectation of further recovery to be made. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the group's recovery method is foreclosing on collateral and value of the collateral is such that there is no reasonable expectation of recovering in full.

Our audit procedures addressed the key areas of significant judgement and estimation in determining the ECL on loans and advances and financial assets at amortised cost as follows:

Evaluation of SICR

- We recalculated the impact of SICR, applying the assumptions and data included in management's model.
- We tested the performance of SICR thresholds applied and the resultant transfer ratio into stage 2 for SICR. This included benchmarking of the volume of up to date accounts transferred to stage 2 based on history.
- We performed a sensitivity analysis of SICR to determine the impact of change in SICR thresholds on the ECL recognised.
- We evaluated management's supporting documentation for the generation of the CG master rating scale and the correlation of these to default rates.

Determination of write-off point

- We evaluated management's assessment of historical post write-off recoveries, to determine the point at which there was no reasonable expectation of further recovery.
- Through recalculation, we tested the application of the IFRS 9 write-off policy, including the exclusion of post write-off recoveries from the Loss Given Default (LGD).

Inclusion of forward looking information and macro-economic variables in the ECL

- We considered the assumptions used in the forward looking economic model, specifically around the forward-looking scenarios used, the macro-economic variables considered as well as the macro-economic outlook. We compared these to our own actuarial statistics and independent market data.
- We tested the performance and sensitivity of the forward looking model in order to evaluate whether the chosen macro-economic factors and model fit provide a reasonable representation of the impact of macro-economic changes on the ECL results.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the members of Capricorn Investment Group Limited

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
• Determining and weighting of assumptions used in the forward-looking economic model. Three forward-looking scenarios are probability weighted by management to determine the ECL (Base, Upper and Lower scenario). These scenarios are then linked to probabilities of default (PDs) and losses given default (LGDs) to derive a forward looking ECL. • Calibrating of the ECL statistical model components (Probability of Default "PD", Exposure at Default "EAD", Loss Given default "LGD") used to estimate the timing and amount of the forecasted cash flows based on historical default data, roll rates and recoveries. Management judgement is required to consider how historical data is used to project ECL. • Management applies its internal credit risk management approach and definitions to determine the recoverable amounts (including collateral) and timing of the future cash flows for stage 3 exposures at an individual exposure level. We determined the ECL on loans and advances and financial assets at amortised cost to be a matter of most significance to our current year audit due to the following: • the first time adoption of IFRS 9 by the group and company; and • the degree of judgement and estimation applied by management in determining the ECL.	*Assessment of ECL raised for stage 3 exposures* • Where ECL was raised for individual exposures, we considered uncertainties and assumptions made by management in their assessment of the recoverability of the exposure. For a sample of stage 3 exposures, we independently recalculated the ECL based on our assessment of the expected cash flows and recoverability of collateral at an individual exposure level. • On a sample basis, we assessed whether the loss event (that is the point at which exposures are classified as credit-impaired) had been identified in a timely manner by considering watch lists as well as credit committee meeting minutes. • For collateral held, we inspected legal agreements and supporting documentation to confirm the existence and legal right to collateral. *Calibrating of ECL statistical model components (PD, EAD, LGD)* • We obtained an understanding of the methodologies and assumptions used by management in the various ECL model components and how these were calibrated to use historical information and forward looking information to estimate future cash flows. • In gaining this understanding, we utilised our actuarial expertise to re-perform the ECL model. We found the accounting policies and the credit impairment methodologies applied by management to loans and advances and financial assets at amortised cost to be in accordance with IFRS 9 – *Financial Instruments*.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Capricorn Group 2019 Integrated Annual Report". The other information does not include the consolidated or 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.

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, 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 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 have 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.
- 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the members of Capricorn Investment Group Limited

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 consolidated and separate 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.

PricewaterhouseCoopers

PricewaterhouseCoopers
Registered Accountants and Auditors
Chartered Accountants (Namibia)

Per: Nangula R Uaandja
Partner

Windhoek
13 September 2019

DIRECTORS' REPORT

for the year ended 30 June 2019

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 2019.

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, Capricorn Investment Group (Pty) Ltd, Capricorn Mobile (Pty) Ltd and Namib Bou (Pty) Ltd, an effective 97.9 % shareholding in Cavmont Capital Holdings Zambia Plc, a 55.5 % shareholding in Entrepo Holdings (Pty) Ltd and an 84.3 % shareholding in Capricorn Investment Holdings (Botswana) Ltd, throughout the year under review. The company has 29.5 % shareholding in Sanlam Namibia Holdings (Pty) Ltd, 28 % in Santam Namibia Ltd and 30 % in Nimbus Infrastructure 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
- Capricorn Mobile (Pty) Ltd
  - Mobile telecommunication 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)

for the year ended 30 June 2019

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)

for the year ended 30 June 2019

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 2019 amounted to:

	2019 N$'000	2018 N$'000
Profit for the year	**1,015,299**	934,435

Normal dividends of N$311.5 million (2018: N$351.5 million) were declared and paid by the company during the year under review. Refer to note 36 to 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 146 to 287.

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, 35,000 authorised Class A preference shares and 30,000 Class B preference shares both 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 5 % or more of the issued ordinary shares of the company at year-end:

	2019 %	2018 %
Capricorn Investment Holdings Ltd	**43.1**	41.0
Government Institutions Pension Fund	**25.9**	25.9
Nam-mic Financial Services Holdings (Pty) Ltd	**8.0**	10.2
Held by the public (93,208,870 ordinary shares (2018: 98,861,577))	**18.0**	19.0
Held by other non-public shareholders	**5.0**	3.9
– Directors and executive managements' direct and indirect shareholding other than companies mentioned above (14,991,915 ordinary shares (2018: 10,310,637))	**2.9**	2.0
– Capricorn Group Employee Share Ownership Trust (8,034,134 ordinary shares (2018: 6,753,334))	**1.5**	1.3
– Capricorn Group Employee Share Benefit Trust (3,420,000 ordinary shares (2018: 3,420,000))	**0.6**	0.6

4.4 Share analysis – preference shares

	2019 %	2018 %
Santam Namibia Ltd	**2.3**	4.8
Standard Bank Namibia Nominees (Pty) Ltd (on behalf of Capricorn Corporate Fund)	**–**	19.0
Capricorn Investment Holdings Ltd	**37.2**	76.2
First National Bank of Namibia Ltd	**60.5**	–

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 to 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. 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.

9. 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	
M K Shikongo		Namibian	27 November 2001	30 November 2018
E M Schimming-Chase		Namibian	4 March 2013	
D G Fourie		Namibian	29 October 2015	
D J Reyneke		South African	19 May 2017	
H M Gaomab II		Namibian	20 August 2018	
G Menetté		Namibian	23 November 2018	
Executive				
M J Prinsloo	Group CEO	South African	14 March 2013	
J J Esterhuyse	Financial Director	South African	1 September 2018	

DIRECTORS' REPORT (CONTINUED)

for the year ended 30 June 2019

9. DIRECTORS AND COMPANY SECRETARY (continued)

At the annual general meeting held on 30 October 2018, Messrs Brandt and Fourie 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, and the appointments of Messrs Gaomab II and Esterhuyse were unanimously confirmed.

The authorised but unissued number of ordinary and preference shares of the company subject to the provisions of the Banking Institutions Act, section 229 of the Companies Act and the listing requirements 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 29 October 2019, 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

10. DIRECTORS' INTERESTS

The directors' interests are disclosed in the corporate governance report.

11. AUDITOR

PricewaterhouseCoopers will continue in office as auditor, until the next annual general meeting, in accordance with the Companies Act of Namibia.

12. EVENTS SUBSEQUENT TO YEAR-END

(1) On 20 August 2019, a final dividend of 36 cents per ordinary share was declared for the year ended 30 June 2019, payable on 27 September 2019.
(2) On 1 July 2019, the group concluded a 30 % acquisition in Paratus Group Holdings Limited. Paratus Group Holdings and its subsidiaries and associates operate in 24 African countries, the most significant of which are Angola, Namibia, Zambia and Botswana.

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 2019

		Group		Company	
	Notes	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
Interest and similar income		**4,740,554**	4,244,215	**65,994**	68,351
Interest and similar expenses		**(2,607,681)**	(2,425,318)	**(126,904)**	(76,019)
Net interest income	5	**2,132,873**	1,818,897	**(60,910)**	(7,668)
Credit impairment losses	6	**(114,547)**	(80,840)	**(15,721)**	–
Net interest income after credit impairment losses		**2,018,326**	1,738,057	**(76,631)**	(7,668)
Non-interest income	7.	**1,359,484**	1,225,168	**994,668**	492,447
Fee and commission income	7.1	**959,965**	885,446	**–**	–
Net trading income	7.2	**143,793**	98,724	**8,340**	(10,767)
Other operating income	7.3	**34,030**	139,768	**986,328**	503,214
Net insurance premium income	7.4	**130,050**	–	**–**	–
Net claims and benefits paid	7.5	**(26,541)**	–	**–**	–
Asset management and administration fees	7.6	**118,187**	101,230	**–**	–
Operating income		**3,377,810**	2,963,225	**918,037**	484,779
Operating expenses	9	**(2,052,038)**	(1,795,108)	**(237,412)**	(97,899)
Operating profit		**1,325,772**	1,168,117	**680,625**	386,880
Share of joint arrangement's results after tax	21	**3,675**	1,148	**–**	–
Share of associates' results after tax	10	**72,657**	83,236	**–**	–
Profit before income tax		**1,402,104**	1,252,501	**680,625**	386,880
Income tax expense	11	**(386,805)**	(318,066)	**8,333**	6,245
Profit for the year		**1,015,299**	934,435	**688,958**	393,125
Other comprehensive income					
Items that may be reclassified to profit or loss					
Change in value of financial assets at fair value through other comprehensive income		**–**	44,026	**–**	–
Exchange differences on translation of foreign operations		**1,339**	7,779	**–**	–
Items that will not be reclassified to profit or loss					
Change in value of financial assets at fair value through other comprehensive income		**7,263**	–	**–**	–
Total comprehensive income for the year		**1,023,901**	986,240	**688,958**	393,125
Profit attributable to:					
Equity holders of the parent entity		**929,889**	922,556	**688,958**	393,125
Non-controlling interests		**85,410**	11,879	**–**	–
		1,015,299	934,435	**688,958**	393,125
Total comprehensive income attributable to:					
Equity holders of the parent entity		**937,616**	974,259	**688,958**	393,125
Non-controlling interests		**86,285**	11,981	**–**	–
		1,023,901	986,240	**688,958**	393,125
Earnings per ordinary share for the profit attributable to the equity holders of the parent entity during the year:					
Basic (cents)	12	**181.6**	180.6		
Fully diluted (cents)	12	**181.3**	180.3		

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

as at 30 June 2019

	Notes	Group 2019 N$'000	Group 2018 N$'000	Company 2019 N$'000	Company 2018 N$'000
ASSETS					
Cash and balances with the central bank	13	**1,572,616**	1,642,557	**663,895**	104,123
Financial assets at fair value through profit or loss	14	**2,037,188**	5,245,981	**428,092**	553,173
Financial assets at amortised cost	14	**860,314**	874,252	**255,650**	202,060
Financial assets at fair value through other comprehensive income	15	**4,742,725**	134,028	**476,153**	–
Due from other banks	16	**1,724,043**	1,773,529	**–**	–
Loans and advances to customers	17	**38,049,583**	36,234,418	**–**	–
Other assets	18	**554,420**	612,470	**165,209**	123,446
Current tax asset		**109,549**	62,722	**2,717**	1,558
Investment in subsidiaries	19	**–**	–	**1,411,348**	1,523,700
Investment in associates	20	**348,716**	282,511	**198,932**	144,656
Interest in joint arrangement	21	**11,016**	7,341	**–**	–
Intangible assets	22	**275,839**	283,933	**–**	–
Property and equipment	23	**284,444**	238,446	**–**	–
Deferred tax asset	29	**107,502**	41,498	**22,376**	6,245
Total assets		**50,677,955**	47,433,686	**3,624,372**	2,658,961
LIABILITIES					
Due to other banks	24	**245,703**	252,683	**–**	–
Other borrowings	25	**996,372**	1,313,433	**141,726**	95,923
Debt securities in issue	26	**5,670,974**	4,777,074	**1,769,729**	1,038,272
Deposits	27	**36,984,725**	33,948,091	**–**	–
Other liabilities	28	**605,119**	1,232,189	**44,647**	217,227
Current tax liability		**2,052**	381	**–**	–
Deferred tax liability	29	**–**	7,205	**–**	–
Post-employment benefits	30	**12,232**	11,440	**–**	–
Total liabilities		**44,517,177**	41,542,496	**1,956,102**	1,351,422
EQUITY					
Share capital and premium	31	**720,302**	724,507	**765,507**	769,933
Non-distributable reserves	34	**85,954**	269,653	**–**	–
Distributable reserves	35	**5,009,140**	4,620,531	**902,763**	537,606
		5,815,396	5,614,691	**1,668,270**	1,307,539
Non-controlling interests in equity		**345,382**	276,499	**–**	–
Total shareholders' equity		**6,160,778**	5,891,190	**1,668,270**	1,307,539
Total equity and liabilities		**50,677,955**	47,433,686	**3,624,372**	2,658,961

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2019

	Notes	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
			Non-distributable reserves			Distributable reserves					
GROUP											
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	35	–	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
Balance at 1 July 2018		724,507	53,742	215,911	16,847	129,811	3,814,879	4,536	654,458	276,499	5,891,190
Credit risk reserve transfer to retained earnings – IFRS 9		–	–	(194,536)	–	–	–	–	194,536	–	–
IFRS 9 transitional adjustment – impairment		–	–	–	–	–	–	–	(322,274)	–	(322,274)
IFRS 9 transitional adjustment – effective interest rate		–	–	–	–	–	–	–	(108,209)	–	(108,209)
Adjusted balance at the beginning of the year		724,507	53,742	21,375	16,847	129,811	3,814,879	4,536	418,511	276,499	5,460,707
Movement in treasury shares		(9,633)	–	–	–	–	–	–	–	–	(9,633)
Total comprehensive income for the year		–	–	–	–	7,263	–	464	929,889	86,285	1,023,901
Profit for the year		–	–	–	–	–	–	–	929,889	85,410	1,015,299
Other comprehensive income		–	–	–	–	7,263	–	464	–	875	8,602
Share-based payment charges	35	–	–	–	11,802	–	–	–	–	–	11,802
Vesting of shares		5,428	–	–	(5,428)	–	–	–	–	–	–
Profit on sale of treasury shares		–	–	–	–	–	–	–	(1,042)	–	(1,042)
Transfer between reserves		–	(2,617)	13,454	–	–	28,918	–	(39,755)	–	–
Reclassification to retained earnings		–	–	–	–	(136,379)	–	–	136,379	–	–
Dividends	36	–	–	–	–	–	–	–	(307,555)	(17,402)	(324,957)
Balance at 30 June 2019		720,302	51,125	34,829	23,221	695	3,843,797	5,000	1,136,427	345,382	6,160,778

* *Share-based compensation reserve (SBCR)*

** *Foreign currency translation reserve (FCTR)*

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

for the year ended 30 June 2019

	Notes	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
			Non-distributable reserves			Distributable reserves					
COMPANY											
Balance at 1 July 2017		727,264	–	–	10,293	–	–	–	485,318	–	1,222,875
Issue of shares		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
Balance at 1 July 2018		**769,933**	**–**	**–**	**10,640**	**–**	**–**	**–**	**526,966**	**–**	**1,307,539**
IFRS 9 transitional adjustment		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(16,572)**	**–**	**(16,572)**
Adjusted balance at the beginning of the year		**769,933**	**–**	**–**	**10,640**	**–**	**–**	**–**	**510,394**	**–**	**1,290,967**
Movement in treasury shares		**(5,225)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5,225)**
Share-based payment charges	35	**–**	**–**	**–**	**5,081**	**–**	**–**	**–**	**–**	**–**	**5,081**
Vesting of shares		**799**	**–**	**–**	**(799)**	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**688,958**	**–**	**688,958**
Dividends	36	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(311,511)**	**–**	**(311,511)**
Balance at 30 June 2019		**765,507**	**–**	**–**	**14,922**	**–**	**–**	**–**	**887,841**	**–**	**1,668,270**

* *Share-based compensation reserve (SBCR)*

** *Foreign currency translation reserve (FCTR)*

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

for the year ended 30 June 2019

	Notes	Group 2019 N$'000	Group 2018 (Restated)[1] N$'000	Company 2019 N$'000	Company 2018 (Restated)[1] N$'000
Cash flows from operating activities					
Cash receipts from customers	37.1	**5,964,107**	5,494,123	**59,882**	47,057
Cash paid to customers, suppliers and employees	37.2	**(4,429,840)**	(4,041,541)	**(236,656)**	(165,764)
Cash generated from/(utilised in) operations	37.3	**1,534,267**	1,452,582	**(176,774)**	(118,707)
(Increase)/decrease in operating assets					
Financial assets at fair value		**(620,179)**	(1,082,037)	**(88,681)**	(179,227)
Financial assets at amortised cost		**4,061**	(574,565)	**85,126**	11,585
Loans and advances to customers and central bank mandatory reserve		**(2,615,189)**	(1,979,117)	**–**	–
Other assets		**62,914**	(152,806)	**(43,251)**	(47,743)
Increase/(decrease) in operating liabilities					
Deposits from customers		**2,963,440**	2,307,696	**–**	–
Other liabilities		**(361,468)**	51,985	**(172,580)**	193,751
Net cash generated from/(utilised in) operations		**967,846**	23,738	**(396,160)**	(140,341)
Dividends received		**90,703**	88,951	**931,664**	402,918
Other interest received		**702**	402	**28,249**	4,775
Income taxes paid	37.4	**(473,804)**	(316,220)	**–**	–
Net cash generated from/(utilised in) operating activities		**585,447**	(203,129)	**563,753**	267,352
Cash flows from investing activities					
Additions to property, plant and equipment	23	**(76,234)**	(45,826)	**–**	–
Proceeds on sale of property, plant and equipment	37.3	**1,229**	2,192	**–**	–
Additions to intangible assets	22	**(64,329)**	(53,099)	**–**	–
Acquisition of subsidiaries	37.5	**–**	(172,766)	**–**	(280,193)
Acquisition of associate		**(54,276)**	(34,461)	**(54,276)**	(34,461)
Net cash utilised in investing activities		**(193,610)**	(303,960)	**(54,276)**	(314,654)
Cash flows from financing activities					
Treasury shares acquired		**(36,572)**	(35,153)	**(5,225)**	–
Treasury shares sold		**23,607**	27,809	**–**	–
Proceeds from other borrowings	25	**451,360**	309,651	**396,360**	90,651
Redemption of other borrowings	25	**(770,874)**	(169,726)	**(353,601)**	–
Redemption of debt securities in issue	26	**(993,816)**	(1,341,584)	**(100,000)**	(930,000)
Proceeds from the issue of debt securities	26	**1,826,392**	1,993,885	**820,392**	1,030,000
Dividends paid	36	**(324,957)**	(348,992)	**(311,511)**	(351,477)
Net cash generated from/(utilised in) financing activities		**175,140**	435,890	**446,415**	(160,826)
Net increase/(decrease) in cash and cash equivalents		**566,977**	(71,199)	**955,892**	(208,128)
Cash and cash equivalents at the beginning of the year		**5,201,402**	5,291,456	**136,095**	344,223
Effects of exchange rate changes on cash and cash equivalents		**23,271**	(18,855)	**–**	–
Cash and cash equivalents at the end of the year	39	**5,791,650**	5,201,402	**1,091,987**	136,095

[1] *Reclassified interest payments on other borrowings and debt securities in issue from financing activities to operating activities in order to disclose all interest payments as operating activities.*
Capricorn Group has restated the disclosure in the cash flow statement to show the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency in terms of IAS 7.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2019

1. BASIS OF PRESENTATION

The consolidated annual financial statements of Capricorn Group (the group or the company) for the year ended 30 June 2019 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 financial assets at fair value through profit and loss, financial assets at fair value through other comprehensive income 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.

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
IFRS 9 Financial Instruments	Details of requirements of IFRS 9 that will impact the group: **Classification and measurement** 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. 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. 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.	The group has adopted IFRS 9 as issued by the IASB in July 2014 with the date of transition of 1 July 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The group did not early adopt any of IFRS 9 in previous periods. The group has elected not to restate comparative figures, as permitted by the transitional provisions of IFRS 9. Accordingly, any differences between previous IAS 39 and new IFRS 9 carrying amounts were recognised in opening retained earnings and other reserves as at 1 July 2018. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have only been applied to the current period. The comparative period notes disclosures repeat those made in the prior year.	Mandatory for financial years commencing on or after 1 January 2019. Expected date of adoption by the group: 1 July 2019.

1. BASIS OF PRESENTATION (continued)

1.3 Standards and interpretations issued (continued)

1.3.1 Standards and interpretations issued affecting amounts reported and disclosures in the current year (continued)

Title of standard	Nature of change	Impact	Mandatory application date/ Date of adoption by group
IFRS 9 Financial Instruments *(continued)*	The remaining financial assets, including derivatives, are measured at fair value through profit or loss (FVTPL). 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). 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 accounting for financial liabilities remains largely unchanged. **Impairments** Under IFRS 9, impairments are determined based on an expected credit loss (ECL) model rather than the incurred loss model used under IAS 39. The group is 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. Forward-looking information based on expected macroeconomic conditions and specific factors that are expected to impact individual portfolios are used when determining ECLs.	The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments: Disclosures. Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the group. Further details of the specific IFRS 9 accounting policies applied in the current period(as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in section 2.3 below. **Classification and measurement** The measurements category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 July are disclosed in 1.3.1(a). **Reconciliation of balances from IAS 39 to IFRS 9** The group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. Please refer to 2.3.1 for more detailed information regarding the new classification requirements of IFRS 9. 1.3.1(b) reconciles the carrying amounts of financial assets from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 July 2018. **Impairment allowance balance from IAS 39 to IFRS 9** 1.3.1(c) reconciles the prior period's closing impairment allowance measure in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 July 2018.	

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

1. BASIS OF PRESENTATION (continued)

1.3 Standards and interpretations issued (continued)

1.3.1 Standards and interpretations issued affecting amounts reported and disclosures in the current year (continued)

Title of standard	Nature of change	Impact	Mandatory application date/ Date of adoption by group
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. 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 has adopted IFRS 15 as issued by the IASB in May 2014 with the date of transition of 1 July 2018, which resulted in adjustments to the amounts previously recognised in the financial statements. IFRS 15 did not have an impact on the timing or amounts of the group's income. The impact of IFRS 15 was limited to the new disclosure requirements.	Mandatory for financial years commencing on or after 1 January 2018. Adoption date by the group: 1 July 2018.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

1. BASIS OF PRESENTATION (continued)

1.3 Standards and interpretations issued (continued)

1.3.1 Standards and interpretations issued affecting amounts reported and disclosures in the current year (continued)

1.3.1 (a) Classification and measurement of financial instruments

	IAS 39		IFRS 9	
Group	**Measurement category**	**Carrying amount N$'000**	**Measurement category**	**Carrying amount N$'000**
Financial assets				
Cash and balances with the central bank	Loans and receivables	1,642,557	Amortised cost	1,642,557
Financial assets at fair value through profit or loss	FVPL (Designated)	5,245,981	FVPL (Mandatory)	1,133,882
Financial assets at amortised cost	Held-to-maturity	874,252	Amortised cost	854,556
Investments securities	FVOCI (Available-for-sale)	134,028	FVOCI	134,028
Financial assets at fair value through other comprehensive income	Not applicable	–	FVOCI	4,112,099
Due from other banks	Loans and receivables	1,773,529	Amortised cost	1,773,529
Loans and advances to customers	Loans and receivables	36,234,418	Amortised cost	35,711,659
Other assets	Loans and receivables	489,326	Amortised cost	489,326
Financial liabilities				
Due to other banks	Amortised cost	252,683	Amortised cost	252,683
Other borrowings	Amortised cost	1,313,433	Amortised cost	1,313,433
Debt securities in issue	Amortised cost	4,777,074	Amortised cost	4,777,074
Deposits	Amortised cost	33,948,091	Amortised cost	33,948,091
Other liabilities	Amortised cost	1,198,794	Amortised cost	1,198,794
Derivatives	FVPL (Held for trading)	5,535	FVPL (Mandatory)	5,535

	IAS 39		IFRS 9	
Company	**Measurement category**	**Carrying amount N$'000**	**Measurement category**	**Carrying amount N$'000**
Financial assets				
Cash and bank balances	Loans and receivables	104,123	Amortised cost	104,123
Financial assets at fair value through profit or loss	FVPL (Designated)	553,173	FVPL (Mandatory)	31,972
Financial assets at amortised cost	Held-to-maturity	202,060	Amortised cost	200,649
Financial assets at fair value through other comprehensive income	Not applicable	–	FVOCI	521,201
Other assets	Loans and receivables	122,972	Amortised cost	100,577
Financial liabilities				
Other borrowings	Amortised cost	95,923	Amortised cost	95,923
Debt securities in issue	Amortised cost	1,038,272	Amortised cost	1,038,272
Other liabilities	Amortised cost	217,227	Amortised cost	217,227

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

1. BASIS OF PRESENTATION (continued)

1.3 Standards and interpretations issued (continued)

1.3.1 Standards and interpretations issued affecting amounts reported and disclosures in the current year (continued)

1.3.1(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon the transition of IFRS 9 on 1 July 2018:

Group	IAS 39 carrying amount 30 June 2018 N$'000	Reclassi-fications N$'000	Remeasure-ments N$'000	IFRS 9 carrying amount 1 July 2018 N$'000
Amortised cost				
Cash and balances with the central bank				
Opening balance under IAS 39 and restated opening balance under IFRS 9	1,642,557	–	–	1,642,557
Financial assets at amortised cost				
Opening balance under IAS 39	874,252			
Remeasurement: ECL allowance		–	(19,696)	
Restated opening balance under IFRS 9				854,556
Due from other banks				
Opening balance under IAS 39 and restated opening balance under IFRS 9	1,773,529	–	–	1,773,529
Loans and advances to customers				
Opening balance under IAS 39	36,234,418			
Remeasurement: Effective interest rate impact[2]			(108,209)	
Remeasurement: ECL allowance		–	(414,550)	
Restated opening balance under IFRS 9				35,711,659
Other assets				
Opening balance under IAS 39 and restated opening balance under IFRS 9	489,326	–	–	489,326
Due to other banks				
Opening balance under IAS 39 and restated opening balance under IFRS 9	252,683	–	–	252,683
Other borrowings				
Opening balance under IAS 39 and restated opening balance under IFRS 9	1,313,433	–	–	1,313,433
Debt securities in issue				
Opening balance under IAS 39 and restated opening balance under IFRS 9	4,777,074	–	–	4,777,074
Deposits				
Opening balance under IAS 39 and restated opening balance under IFRS 9	33,948,091	–	–	33,948,091
Other liabilities				
Opening balance under IAS 39 and restated opening balance under IFRS 9	1,198,794	–	–	1,198,794

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

1. BASIS OF PRESENTATION (continued)

1.3 Standards and interpretations issued (continued)

1.3.1 Standards and interpretations issued affecting amounts reported and disclosures in the current year (continued)

1.3.1(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

Group	IAS 39 carrying amount 30 June 2018 N$'000	Reclassi-fications N$'000	Remeasure-ments N$'000	IFRS 9 carrying amount 1 July 2018 N$'000
Fair value through profit and loss (FVPL)				
Financial assets at FVPL				
Opening balance under IAS 39	5,245,981			
Reclassification to fair value through other comprehensive income[1]		(4,112,099)	–	
Restated opening balance under IFRS 9				1,133,882
Derivatives				
Opening balance under IAS 39 and restated opening balance under IFRS 9	5,535	–	–	5,535
Fair value through other comprehensive income (FVOCI)				
Investment securities				
Opening balance under IAS 39 and restated opening balance under IFRS 9	134,028	–	–	134,028
Financial assets at fair value through other comprehensive income				
Opening balance under IAS 39	–			
Reclassification from FVPL[1]		4,112,099	–	
Restated opening balance under IFRS 9				4,112,099

Company

Amortised cost				
Cash and bank balances				
Opening balance under IAS 39 and restated opening balance under IFRS 9	104,124	–	–	104,123
Financial assets at amortised cost				
Opening balance under IAS 39	202,060			
Remeasurement: ECL allowance		–	(1,411)	
Restated opening balance under IFRS 9				200,649
Other assets				
Opening balance under IAS 39	122,972			
Remeasurement: ECL allowance			(22,395)	
Restated opening balance under IFRS 9				100,577
Other borrowings				
Opening balance under IAS 39 and restated opening balance under IFRS 9	95,923	–	–	95,923
Debt securities in issue				
Opening balance under IAS 39 and restated opening balance under IFRS 9	1,038,272	–	–	1,038,272
Other liabilities				
Opening balance under IAS 39 and restated opening balance under IFRS 9	217,227	–	–	217,227

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

1. BASIS OF PRESENTATION (continued)

1.3 Standards and interpretations issued (continued)

1.3.1 Standards and interpretations issued affecting amounts reported and disclosures in the current year (continued)

1.3.1(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

Company	IAS 39 carrying amount 30 June 2018 N$'000	Reclassi-fications N$'000	Remeasure-ments N$'000	IFRS 9 carrying amount 1 July 2018 N$'000
Fair value through profit and loss (FVPL)				
Financial assets at FVPL				
Opening balance under IAS 39	553,173			
Reclassification to fair value through other comprehensive income[1]		(521,201)	–	
Restated opening balance under IFRS 9				31,972
Fair value through other comprehensive income (FVOCI)				
Financial assets at fair value through other comprehensive income				
Opening balance under IAS 39	–			
Reclassification from FVPL[1]		521,201	–	
Restated opening balance under IFRS 9				521,201

[1] Reclassifications of debt instruments that are held within a business model of collection of contractual cash flows and selling the assets. The treasury bills, government stock and tradable instruments were previously designated at fair value through profit or loss as they were managed on a fair-value basis. As part of the transition to IFRS 9, these instruments are held with a view to collect contractual cash flows and to sell and thus have been reclassified to measured at fair value through other comprehensive income. The effective interest rate of these debt instruments is in the range of 6.8 % and 9.9 % per annum and N$272.0 million of interest income has been recognised during the year.

[2] Fees that are an integral part of the effective interest rate are treated as an adjustment to the effective interest rate (EIR). The IFRS 9 requirements on EIR for financial assets remain unchanged from IAS 39; however, the Group prior to 1 July 2018 used to compute the original EIR on loans at a very aggregated level and the adjustment was never material for adjustment in the financial statements. For IFRS 9 ECL calculation purposes, the original EIR is used to discount ECL. As a result, the assumptions applied in the EIR model were refined and data points used were at a more disaggregated level. This refinement in the EIR calculation resulted in a difference in the effective interest rate calculated in prior years. As it is impractical to determine what part of the adjustment is an error and what part relates to the transition to IFRS 9 without using hindsight, both are accounted for as a cumulative catch-up in opening retained earnings. The EIR adjustment is included as part of the carrying amount of loans and advances in Note 17.

1.3.1(c) Reconciliation of impairment allowance from IAS 39 to IFRS 9

Measurement category	Loan loss allowance under IAS39 N$'000	Reclassi-fication N$'000	Remeasure-ment N$'000	Loan loss allowance under IFRS 9 N$'000
Group				
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Financial assets at amortised cost			19,696	19,696
Loans and advances to customers	366,567	–	414,550	781,117
Total	366,567	–	434,246	800,813
Current and deferred tax impact			(111,972)	
Net impact per statement of changes in equity			322,274	
Company				
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Financial assets at amortised cost	–	–	1,411	1,411
Other assets	–	–	22,395	22,395
Total	–	–	23,806	23,806
Current and deferred tax impact			(7,234)	
Net impact per statement of changes in equity			16,572	

1. BASIS OF PRESENTATION (continued)

1.3 Standards and interpretations issued (continued)

1.3.1 Standards and interpretations issued affecting amounts reported and disclosures in the current year (continued)

1.3.1(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (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. 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. 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. 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. 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 elected to apply IFRS 16 retrospectively without restating comparative periods. Comparative figures will be presented in terms of IAS 17. A transition adjustment from IAS 17 to IFRS 16 was posted on 1 July 2019. As at 1 July 2019, IFRS 16 is expected to have an increase of approximately N$189.0 million in total assets and total liabilities, which reflects the present value of remaining contractual lease payments as required by IFRS 16. As a lessee, the group elects to use a number of practical expedients.	Mandatory for financial years commencing on or after 1 January 2019. Expected date of adoption by the group: 1 July 2019.
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. 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. 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. 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. Expected date of adoption by the group: 1 July 2021.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

When the group increases its stake in an associate it applies the "cost-of-each-purchase" method. Under this method the cost of an associate acquired in stages is measured as the sum of the consideration paid for each purchase plus a share of the investee's profits and other equity movements. Any acquisition-related costs are treated as part of the investment in the associate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (FVPL), 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.

2.3 Financial instruments

IFRS 9 – Applicable to the current period figures

2.3.1 Measurement methods

Amortised cost and effective interest

The amortised cost is the at which the financial assets or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider the expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees.

When the group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

The carrying value of loans and advances to customers is based on the calculation of the effective interest rate (EIR). This EIR is used in the IFRS 9 expected credit loss model for calculating provisions and to amortise any unearned loan origination fees over the contractual life of loans and advances.

The loan repayment calculation is based on the contractual rate, term, and capital amount including the loan origination fee. This adjusted instalment, including the loan origination fee, is used to determine the effective interest rate of the loan. The carrying value of loans and advances to customers is calculated using this effective interest rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial instruments (continued)

2.3.1 Measurement methods (continued)

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets.

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a part to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset.

At initial recognition, the group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVPL are expensed in profit or loss. Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference immediately when the fair value is based on quoted price in an active market for an identical asset of liability (i.e. a level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss. In the event that fair value is not based on level 1 inputs, the fair value adjustment is deferred. The deferral is then amortised over the life of the instrument or realised when settled.

For financial assets that have subsequently become credit-impaired (or "stage 3"), interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the ECL provision).

2.3.2 Financial assets

(i) Classification and subsequent measurement

From 1 July 2018, the group has applied IFRS 9 and classifies its financial assets in the following measurement categories:
- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:
- The group's business model for managing the asset; and
- The cash flow characteristics of the asset.

Based on these factors, the group classifies its debt instruments into one of the following three measurement categories:
- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance at recognition date. Interest income from these financial assets is included in "Interest and similar income" using the effective interest rate method.
- Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortised cost are measured at FVPL. A gain or loss on a debt instruments that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss and presented within the "Non-operating income" in the period in which it arises. The group may also irrevocably designate financial assets at fair value through profit or loss if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. Interest income from these financial assets is included in "Interest and similar income" using the effective interest rate method.
- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest that are not designated at FVPL are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains or losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Non-operating income". Interest income from these financial assets is included in "Interest and similar income" using the effective interest rate method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial instruments (continued)

2.3.2 Measurement methods (continued)

(i) Classification and subsequent measurement (continued)

Business model: the business model reflects how the group manages the assets in order to generate cash flows. That is, whether the group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows arising from the sale of assets. If neither is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the group assesses whether the financial instruments' cash flow represent solely payments of principal and interest (the SPPI test). In making this assessment, the group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The group reclassifies debt instruments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The group's management has elected, at initial recognition, to irrevocably designate the investment security portfolio at FVOCI. These investments are held for purposes other than to generate investment returns. Fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the group's right to receive payments is established.

(ii) Impairment

The group assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instrument assets carried at amortised cost and with the exposure arising from loan commitments and financial guarantee contracts. The group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by using the transition matrix methodology;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 3.2.2 provides more detail of how the expected credit loss allowance is measured.

(iii) Modification of loans

The group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. A substantial modification of the contractual cash flows results in the group derecognising the original financial asset and recognising a "new asset" at fair value and recalculating a new effective interest rate for the asset. If modified contractual cash flows differ by more than 10% from original contractual cash flows, the modification will be deemed to be substantial. The date of renegotiation is consequently considered to the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial instruments (continued)

2.3.2 Measurement methods (continued)

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and whether (i) the group transfers substantially all the risks and rewards of ownership, or (ii) the group neither transfers nor retains substantially all the risks and rewards of ownership and the group has not retained control.

Collateral furnished by the group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the group retains substantially all the risks and rewards on the basis of the predetermined repurchase price and the criteria for derecognition are therefore not met.

2.3.3 Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for financial liabilities at FVPL: this classification is applied to derivatives. Financial guarantee contracts and loan commitments (see note 2.13)

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

IFRS 9 – Applicable to the current period figures

2.3.4 Financial assets

The group classifies its financial assets in the following categories:
- financial assets at FVPL;
- 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 FVPL. Financial assets carried at FVPL 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 FVPL 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 FVPL 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 FVPL.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial instruments (continued)

2.3.4 Financial assets (continued)

(i) Financial assets at fair value through profit or loss (continued)

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 FVPL 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 FVPL 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.

(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 FVPL.

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.

2.3.5 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 FVPL.

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 FVPL.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial instruments (continued)

2.3.5 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 FVPL 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.

2.3.6 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.

2.3.7 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial instruments (continued)

2.3.8 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.

2.3.9 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Impairment of financial assets (continued)

2.4.1 Financial assets carried at amortised cost (continued)

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.

(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 3.2.6.

(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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Impairment of financial assets (continued)

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.

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 assets

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible asset (continued)

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.

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 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.10 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Financial guarantee contracts

IFRS 9 – Applicable to the current period figures

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.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:
- The amount of the loss allowance (calculated as described in note 3.2.2); and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the group are measured as the amount of the loss allowance (calculated as described in note 3.2.2). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

IAS 39 – Applicable to the comparative period figures

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.

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:
(i) is dismissed (except if due to misconduct or poor performance);
(ii) dies while employed;
(iii) 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Employee benefits (continued)

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.

2.15 Share-based payments

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 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 of 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

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 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.

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

IFRS 15 – Applicable to the current period figures

Revenue from customers is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail, microlending and corporate banking services	The group provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The group sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the group.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Asset management service	The group provides asset management services. Fees for asset management services are calculated based on a fixed percentage of the value of assets managed and deducted from the customer's account balance on a monthly basis.	Revenue from asset management services is recognised over time as the services are provided.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Revenue recognition (continued)

IAS 18 – Applicable to the comparative and current period figures

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 other comprehensive income (FVOCI) are included in "net interest income" or "dividend income", respectively.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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; the other major operating segment is the microlending activities in Namibia. Other components include property development, asset management, unit trust management and the Zambian banking operations. However these components each contribute less than 10 % 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 Chief Executive Officer 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 Group Chief Executive Officer 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Insurance contracts

2.23.1 Policyholder insurance contracts

Policyholder insurance contracts are classified in accordance with IFRS 4.

The Entrepo group is licensed as a long-term insurer in Namibia in accordance with the Long-term Insurance Act (the Act) of 1998, as amended. The Act requires the determination of assets, liabilities and capital requirements for statutory purposes in accordance with generally accepted actuarial standards and principles.

In terms of IFRS 4, defined insurance liabilities are allowed to be measured under existing local practice. The group has adopted the Namibian Standards of Actuarial Practice (NSAP) issued by the Society of Actuaries of Namibia (SAN) to determine the liability in respect of insurance contracts. The following NSAP is relevant to the determination of policyholder liabilities: NSAP 104 Calculation of the Value of the Assets, Liabilities and Solvency Capital Requirement of Long-term Insurers.

Where applicable, the NSAPs are referred to in the accounting policies and notes to the financial statements.

Classification of insurance contracts

The group issued contracts which transfer insurance risk. The group classifies these contracts as insurance contracts.

Insurance contracts

Insurance contracts are those contracts under which the group (as insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects them. Such contracts may also transfer financial risk. As a general guideline, the group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10 % more than the benefits payable if the insured event did not occur.

Profit and loss impact of movements

Adjustments to the amounts of policyholder liabilities for policies established in prior years are reflected in the financial statements for the period in which the adjustments are made and disclosed separately if material.

Outstanding insurance contract claims

Provision is made on a prudent basis for the estimated final costs of claims notified but not settled at year end, using the best information available at that time. The estimate includes an amount of the direct claims expenses and assessment charges arising from the settlement of claims.

2.23.2 Gross premiums

Gross premiums written comprise the premiums on contracts entered into during the year. Includes all premiums for the period of risk covered by the policy, regardless of whether or not these are due for payment in the accounting period.

2.23.3 Claims paid

Claims paid are recognised in the financial statements when the liability arises and are expensed accordingly.

2.23.4 Interest capitalised on stage 3 impaired loans and advances

IFRS 9 requires that interest income for loans and advances classified as Stage 3 be calculated on the net carrying amount; this results in a portion of contractual interest being suspended. IFRS 9 requires that this suspended contractual interest be presented as part of the loans and advances' gross carrying amount. The group has applied this requirement by presenting interest capitalised on stage 3 loans and advances as a separate reconciling item when calculating the loans and advances' total value. Interest capitalised on stage 3 loans and advances, therefore, does not impact the net carrying amount of the loans and advances as presented on the statement of financial position. However, this change in presentation has resulted in an increased gross carrying amount of the loans and advances when compared to IAS 39.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

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.

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 of 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)

for the year ended 30 June 2019

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.

IFRS 9 committee

The IFRS 9 committee is the main forum where specific matters that can cause deterioration in credit risk will be discussed. At this meeting decisions will also be made on the risk associated with the prevailing and forecasted macroeconomic conditions and the impact on specific sectors in the applicable economies.

The IFRS 9 committee is established to make the following decisions at each reporting period in terms of the impairment allowance model utilised by the group:

1. Assumptions
2. Inputs, including macro-economic variables
3. Results
4. Movements in sectors/regions
5. Sign off total impairments for the reporting period

Significant risks to which the group are exposed are discussed below.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

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 159 to 177 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:

	2019				
Group	Financial assets/ liabilities at fair value through profit or loss N$'000	Financial assets/ liabilities at amortised cost N$'000	Financial assets at fair value through other comprehensive income N$'000	Non-financial assets/ liabilities N$'000	Total N$'000
ASSETS					
Cash and balances with the central bank	–	1,572,616	–	–	1,572,616
Financial assets at fair value through profit or loss	2,037,188	–	–	–	2,037,188
Financial assets at amortised cost	–	860,314	–	–	860,314
Financial assets at fair value through other comprehensive income	–	–	4,742,725	–	4,742,725
Due from other banks	–	1,724,043	–	–	1,724,043
Loans and advances to customers	–	38,049,583	–	–	38,049,583
Other assets	357	412,383	–	141,680	554,420
Current tax asset	–	–	–	109,549	109,549
Investment in associates	–	–	–	348,716	348,716
Interest in joint arrangements	–	–	–	11,016	11,016
Intangible assets	–	–	–	275,839	275,839
Property, plant and equipment	–	–	–	284,444	284,444
Deferred tax asset	–	–	–	107,502	107,502
Total assets	2,037,545	42,618,939	4,742,725	1,278,746	50,677,955
LIABILITIES					
Due to other banks	–	245,703	–	–	245,703
Other borrowings	–	996,372	–	–	996,372
Debt securities in issue	–	5,670,974	–	–	5,670,974
Deposits	–	36,984,725	–	–	36,984,725
Other liabilities	5,959	566,532	–	32,628	605,119
Current tax liability	–	–	–	2,052	2,052
Post-employment benefits	–	–	–	12,232	12,232
Total liabilities	5,959	44,464,306	–	46,912	44,517,177

for the year ended 30 June 2019

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Analysis of assets and liabilities (continued)

Company	Financial assets/ liabilities at fair value through profit or loss N$'000	Financial assets/ liabilities at amortised cost N$'000	2019 Financial assets at fair value through other comprehensive income N$'000	Non-financial assets/ liabilities N$'000	Total N$'000
ASSETS					
Cash and bank balances	–	663,895	–	–	663,895
Financial assets at fair value through profit or loss	428,092	–	–	–	428,092
Financial assets at amortised cost	–	255,650	–	–	255,650
Financial assets at fair value through other comprehensive income	476,153	–	–	–	476,153
Other assets	–	61,009	–	104,200	165,209
Current tax asset	–	–	–	2,717	2,717
Investment in subsidiaries	–	–	–	1,411,348	1,411,348
Investment in associates	–	–	–	198,932	198,932
Deferred tax	–	–	–	22,376	22,376
Total assets	904,245	980,554	–	1,739,573	3,624,372
LIABILITIES					
Other borrowings	–	141,726	–	–	141,726
Debt securities in issue	–	1,769,729	–	–	1,769,729
Other liabilities	–	44,162	–	485	44,647
Total liabilities	–	1,955,617	–	485	1,956,102

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for the year ended 30 June 2019

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Analysis of assets and liabilities (continued)

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
	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	–	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

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Analysis of assets and liabilities (continued)

Company				2018			
	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 bank balances	–	–	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

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. 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 BARC.

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.

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). This is similar to the approach used for the purposes of measuring expected credit loss (ECL) under IFRS 9 (note 3.2.2).

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.

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)

(i) Probability of default (PD)

The probability of default is an indication of the probability that a given loan will default. Under Basel II and IFRS 9 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 II and IFRS 9 is calculated using historical data of defaults.

(ii) Exposure at default (EAD)

The exposure at default under Basel II and IFRS 9 will take into account an expectation of future draw-downs until the default event has occurred by utilising loan run down for amortising products and a credit conversion factor for non-amortising products. For example, for a loan this is the face value at the default date. 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 and IFRS 9.

(b) Financial assets measured at amortised cost

Assets in this category mainly relate to investments in financial instruments that have an external credit rating. Implied probability of defaults have been benchmarked against published estimates by external credit rating agencies. LGDs were benchmarked against Basel best practice. The implied PDs and LGDs are used to calculate expected credit losses for these assets.

IFRS 9 – Applicable to the current period figures

Credit risk grading

The group uses internal credit risk gradings that reflect its assessment of the PD individual counterparties. The group use internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of is fed into the rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers.

The credit grades are calibrated such that the risk of default increases exponentially at each risk grade.

The following are additional considerations for each type of portfolio held by the group:

Retail

After the date of initial recognition, for retail business, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural score. Any other known information about the borrower which impacts their creditworthiness – such as unemployment and previous delinquency history – is also incorporated into the behavioural score. This score is mapped to a PD.

Corporate

For wholesale business, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information/credit assessments into the credit systems on an ongoing basis. In addition, the relationship manager will also update information about the creditworthiness of the borrower every year from sources such as public financial statements. This will determine the updated internal credit rating and PD.

The group's rating method comprises nine rating levels for instruments not in default (CG1to CG9). The rating methods are subject to an annual validation and recalibration so that they reflect the latest projections in the light of all actually observed defaults.

Rating	Meaning	Implied PD
CG1	Virtually no risk	1.75 %
CG2	Low risk	2.05 %
CG3	Moderate risk	2.83 %
CG4	Acceptable risk	4.50 %
CG5	Borderline	5.08 %
CG6	Special mention	27.41 %
CG7	Substandard	68.02 %
CG8	Doubtful	78.77 %
CG9	Loss	95.72 %

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3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.2 Expected credit loss measurement

IFRS 9 outlines a "three-stage" model for impairment based on changes on credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in "stage 1" and has its credit risk continuously monitored by the group.
- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to "stage 2" but is not yet deemed to be credit-impaired. Please refer to note 3.2.2.1 for a description of how the group determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to "stage 3". Please refer to note 3.2.2.2 for a description of how the group defines credit-impaired and default.
- Financial instruments in stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 3.2.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should be carried forward-looking information. Note 3.2.2.4 includes an explanation of how the group has incorporated this in its ECL models.

Further explanation is also provided of how the group determines appropriate groupings when ECL is measured on a collective basis (refer to note 3.2.2.5).

The following diagram summarises the impairment requirements under IFRS 9:

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.2 Expected credit loss measurement (continued)

The key judgements and assumptions adopted by the group in addressing the requirements of the standard are discussed below:

3.2.2.1 Significant increase in credit risk

The group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

The credit rating at the reporting date has deteriorated significantly (moved down two rating levels e.g. CG1 to CG3), compared to the credit rating at initial recognition of the account. The thresholds for the significant increase in credit risk is determined by mapping the SICR roll rates to the actual historical arrears roll rates. An account can move back to stage 1 if its credit score improves again.

Qualitative criteria

Accounts are classified on a watch list when there is qualitative information available on the client's credit risk increasing. These accounts are moved over to stage 2.

The qualitative criteria used to determine whether accounts have increased in credit risk include, but is not limited to:
- Repayment ability of clients
- Collateral valuations
- Sector in which the client operates
- Natural events (i.e. drought)
- Debtors not paying across industries

The criteria used to identify SICR are monitored and reviewed periodically for the appropriateness by the independent Credit Risk team. Once the above matters improved sufficiently, an account can be moved back to stage 1.

Backstop

A backstop is applied and the financial instruments considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

An account can move back to stage 1 if it is less than 30 days past due.

The group has not used the low credit risk exemption for any financial instruments in the year ended 30 June 2019. This was also not applied at transition.

3.2.2.2 Definition of default and credit-impaired assets

The group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Qualitative criteria

The borrower is more than 90 days past due on its contractual payments.

Quantitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:
- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenants
- It is becoming probable that the borrower will enter bankruptcy

The criteria above have been applied to all financial instruments held by the group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the probability of default (PD), exposure at default (EAD) and loss given default (LGD) throughout the group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria and it is fully paid up for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions. This is in line with regulatory requirements. When an account has been fully paid up for six months it is moved back to stage 1.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.2 Expected credit loss measurement (continued)

3.2.2.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The expected credit loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation.
- EAD is based on the amount the group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For a revolving commitment, the group includes the current drawn balance plus any further amount that is to be expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss given default (LGD) represents the group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival. This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12 month PD. The maturity profile looks at how defaults develop on a portfolio from the point of observation throughout the remainder of the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio segment. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortisation products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by the borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the EAD is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the group's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type. This is supported by historical analysis of recoveries per portfolio segment, including the discounting of the recoveries to the default date as well as the recovery costs accounted for.

The assumptions underlying the ECL calculation are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.2 Expected credit loss measurement (continued)

3.2.2.4 Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. The forecast of economic variables, regression analysis and expert judgement is applied and confirmed through internal governance structures in order to apply a Base, Upper and Lower scenario of the forward looking view for the ECL calculation.

The following table shows the main macroeconomic factors used to estimate the allowances for credit losses on loan. The model is based on a weighting of 50/40/10 for the Base, Upper and Lower scenario. The remaining forecast period is a 20-year forecast to allow for all longer-term loans.:

	Base Scenario		Lower Scenario		Upper Scenario	
Macroeconomic factors	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Namibia						
Inflation	4.54%	5.93%	3.63%	4.75%	5.45%	7.12%
Real GDP	1.73%	3.77%	1.39%	3.02%	2.08%	4.52%
Prime Rate	10.17%	11.92%	9.92%	11.67%	10.42%	12.17%
Botswana						
Inflation	3.60%	4.90%	2.20%	2.90%	8.10%	6.80%
Real GDP	3.90%	4.50%	3.50%	3.70%	4.60%	4.30%
Prime Rate	6.50%	8.50%	6.00%	6.20%	8.50%	7.50%
Zambia						
Inflation	9.8%	10.1%	8.73%	7.00%	10.67%	10.67%
Real GDP	3.1%	2.7%	4.03%	4.03%	2.86%	2.86%
Prime Rate	10.3%	10.3%	9.75%	9.75%	12.45%	12.45%

The following table shows a comparison of the group's allowances for credit losses on non-impaired exposures under IFRS 9 as at 30 June 2019 based on the probability weightings of above-mentioned three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100 %.

For the sensitivity analysis on the SICR rules the quantitative SICR rules were adjusted. The SICR movements per scenario is shown below:

Base – 2 credit grades move downwards since origination
Lower – 3 credit grades move downwards since origination (less stringent)
Upper – 1 credit grade move downwards since origination (more stringent)

Sensitivity analysis	Allowances for credit losses (N$'000)	% Change of total loss allowance
ECL	763,519	0.00 %
SICR rules		
Lower	752,218	(1.48 %)
Upper	800,111	4.79 %
Forward-looking view		
Base	753,383	(1.33 %)
Lower	759,135	(0.57 %)
Upper	773,128	1.26 %

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.2 Expected credit loss measurement (continued)

3.2.2.5 Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within the group are homogeneous.

In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the group has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:

- Product type
- Repayment type
- Collateral type

The groupings above only apply to stage 1 and stage 2 credit impairments.

All stage 3 exposures are assessed individually.

The appropriateness of groupings is monitored and reviewed on a periodic basis by the IFRS 9 committee.

3.2.3 Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between stage 1 and stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period (see note 3.2.10)

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3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Loss allowance (continued)

The following table explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Group	Opening ECL 1 July 2018	Total transfer between stages	Net impairments raised	Impaired accounts written off	Exchange and other movements	Closing ECL 30 June 2019
Overdrafts	177,223	–	25,301	(4,886)	–	197,638
Stage 1	38,684	(517)	(4,605)	(1)	518	34,079
Stage 2	31,072	(4,318)	7,830	(42)	4,360	38,902
Stage 3	107,467	4,835	22,076	(4,843)	(4,878)	124,657
Term loans	**182,495**	**–**	**73,529**	**(42,630)**	**(3,627)**	**209,767**
Stage 1	34,454	(461)	15,166	(10,819)	1,939	40,279
Stage 2	21,364	(2,969)	2,110	(2,706)	5,675	23,474
Stage 3	126,677	3,430	56,253	(29,105)	(11,241)	146,014
Mortgages	**152,269**	**–**	**12,974**	**(402)**	**–**	**164,841**
Stage 1	16,514	(221)	(3,116)			13,177
Stage 2	18,267	(2,539)	(3,563)		2,760	14,925
Stage 3	117,488	2,760	19,653	(402)	(2,760)	136,739
Instalment finance	**269,130**	**–**	**(2,946)**	**(25,075)**	**(49,836)**	**191,273**
Stage 1	64,341	(862)	11,473	(1)	(9,950)	65,001
Stage 2	72,423	(10,065)	(31,528)	(14)	(5,861)	24,955
Stage 3	132,366	10,927	17,109	(25,060)	(34,025)	101,317
Total loans and advances	781,117	–	108,858	(72,993)	(53,463)	763,519
Other financial instruments	**19,696**	**–**	**17,177**	**–**	**–**	**36,873**
Stage 1	729	–	168	–	–	897
Stage 2	18,967	–	17,009	–	–	35,976
Total	**800,813**	**–**	**126,035**	**(72,993)**	**(53,463)**	**800,392**

Company	Opening ECL 1 July 2018	Total transfer between stages	Net impairments raised	Impaired accounts written off	Exchange and other movements	Closing ECL 30 June 2019
Financial assets at amortised cost	1,411	–	15,721	–	–	17,132
Stage 1	1,411	(1,411)	–	–	–	–
Stage 2	–	1,411	15,721	–	–	17,132
Other assets	**22,395**	**–**	**–**	**–**	**(6,092)**	**16,303**
Stage 3	22,395	–	–	–	(6,092)	16,303
Total	**23,806**	**–**	**15,721**	**–**	**(6,092)**	**33,435**

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Loss allowance (continued)

Significant changes in the gross carrying amount of financial assets that contributed to changes in the loss allowance were as follows:

Overdrafts
- Gross overdrafts increase by N$114.4 million (2.1 %) from the prior period, which led to stage 1 and stage 2 expected credit losses to remain relatively flat year-on-year.
- Non-performing overdrafts increased by N$158.5 million year-on-year, which resulted in an increase in stage 3 expected credit losses of N$17.2 million. The non-performing overdrafts are well secured with a fair value of security of N$283.7 million.

Term loans
- Term loans increased by N$1.9 billion (19.0 %) from the prior period, mainly driven by growth in commercial loans.
- The write-off of term loans with a gross carrying value of N$42.6 million resulted in the reduction of the expected credit loss allowance with the same amount.

Mortgages
- Mortgages grew by N$500.2 million (2.9 %) over the prior period.
- Expected loss allowances grew by 8.3 % mainly as a result of an increase in well-collateralised non-performing mortgage loans of N$102.3 million.

Instalment finance
- Due to the current economic environment, the demand for instalment finance has subsided, with gross instalment finance loans shrinking by N$152.6 million (4.5 %) year-on-year.
- This is coupled with a deteriorating exchange rate of the Zambian kwacha leading to the majority of the N$49.8 million foreign exchange difference of the expected credit losses.

3. **FINANCIAL RISK MANAGEMENT (continued)**

3.2 **Credit risk (continued)**

3.2.4 ***Maximum exposure to credit risk before collateral held or other credit enhancements***

3.2.4.1 Maximum exposure to credit risk – All financial instruments

Group	Notes	Maximum exposure 2019 N$'000	Maximum exposure 2018 N$'000
Credit risk exposures relating to on-statement of financial position assets are as follows:			
Cash and balances with the central bank	13	**1,572,616**	1,642,557
Financial asset at fair value through profit or loss	14	**2,037,188**	5,245,981
– Treasury bills		**–**	3,221,439
– Government stock		**–**	438,741
– Unit trust investments		**2,037,188**	42,056
– Money market investments		**–**	1,091,826
– Tradable instruments		**–**	411,707
– Corporate bonds		**–**	40,212
Gross financial assets at amortised cost	14	**897,187**	874,252
– Treasury bills		**208,367**	249,537
– Government stock		**688,820**	624,715
Financial assets at fair value through other comprehensive income	15	**4,742,725**	134,028
– Investment securities		**3,160**	134,028
– Treasury bills		**3,494,404**	–
– Government stock		**728,510**	–
– Tradable instruments		**476,153**	–
– Corporate bonds		**40,498**	–
Due from other banks	16	**1,724,043**	1,773,529
Gross loans and advances to customers[1]	17	**38,946,115**	36,600,985
– Overdrafts		**5,576,472**	5,462,041
– Term loans		**12,001,762**	10,083,575
– Mortgages		**17,748,863**	17,248,618
– Instalment finance		**3,209,275**	3,361,848
– Preference shares		**409,743**	444,903
Other assets*	18	**412,740**	489,326
Total exposure on-statement of financial position		**50,332,614**	46,760,658
Credit risk exposure relating to off-statement of financial position items are as follows:			
Liabilities under guarantees	38	**1,280,854**	1,380,115
Letters of credit	38	**230,143**	315,491
Loan commitments	38	**1,699,163**	1,714,759
Total exposure off-statement of financial position		**3,210,160**	3,410,365
Total credit risk exposure		**53,542,774**	50,171,023

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

3.2.4.1 Maximum exposure to credit risk – All financial instruments (continued)

Company	Notes	Maximum exposure 2019 N$'000	2018 N$'000
Cash and bank balances	13	**663,895**	104,123
Financial assets at fair value through profit or loss	14	**428,092**	553,173
– Money market investments		**428,092**	31,972
– Government stock			109,494
– Tradable instruments			411,707
Gross financial assets at amortised cost	14	**272,782**	202,060
– Preference shares		**272,782**	202,060
Financial assets at fair value through other comprehensive income	15	**476,153**	–
– Tradable instruments		**476,153**	–
Other assets*		**77,312**	122,972
Total exposure on statement of financial position		**1,918,234**	982,328
Total credit risk exposure		**1,918,234**	982,328

[1] *Excludes the impact of interest in suspense and the IFRS 9 effective interest rate impact.*
* *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 2019 and 2018, 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

3. **FINANCIAL RISK MANAGEMENT (continued)**

3.2 **Credit risk (continued)**

3.2.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

3.2.4.2 Maximum exposure to credit risk – Financial instruments subject to the impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the group's maximum exposure to credit risk on these assets.

	2019			
	Stage 1 12-month ECL N$'000	Stage 2 Lifetime ECL N$'000	Stage 3 Lifetime ECL N$'000	Total N$'000
Credit grade				
Not rated	75,760	23,402	163,829	262,991
Low risk (CG1 – CG2)	33,278	21,238	1,174	55,690
Medium risk (CG3 – CG5)	41,851	44,375	92,765	178,991
Special monitoring (CG6 – CG7)	1,639	13,074	223,102	237,815
Doubtful (CG8 – CG9)	8	167	27,857	28,032
Gross carrying amount[1]	35,614,458	1,718,866	1,612,791	38,946,115
Loss allowance	(152,536)	(102,256)	(508,727)	(763,519)
Carrying amount[1]	35,461,922	1,616,610	1,104,064	38,182,596

[1] *Excludes the impact of interest in suspense and the IFRS 9 effective interest rate adjustment.*

Financial instruments at amortised cost

	Stage 1 12-month ECL N$'000	Stage 2 Lifetime ECL N$'000	Stage 3 Lifetime ECL N$'000	Total N$'000
Credit grade				
Non-rated	897	35,976	–	36,873
Gross carrying amount	191,834	705,353	–	897,187
Loss allowance	(897)	(35,976)	–	(36,873)
Carrying amount	190,937	669,377	–	860,314

Information on how the expected credit loss (ECL) is measured and how the three stages above are determined is included in note 3.2.2 "Expected credit loss measurement".

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.5 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 sublimits 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.

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.

The group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the group since the prior period.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.5 Risk limit control and mitigation policies (continued)

IFRS 9 – Applicable to current period figures

The group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Gross exposure N$'000	Impairment allowance N$'000	Carrying amount N$'000	Fair value of collateral held N$'000
Credit-impaired assets				
– Overdrafts	382,321	(124,657)	257,664	283,662
– Term loans	355,436	(146,014)	209,422	248,959
– Mortgages	767,494	(136,739)	630,755	669,801
– Instalment finance	107,540	(101,317)	6,223	55,662
Total credit-impaired assets	**1,612,791**	**(508,727)**	**1,104,064**	**1,258,084**

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.

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 microloans, 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.5 Risk limit control and mitigation policies (continued)

(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 an 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.

3.2.6 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, 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 microloans book, where the Delphi score forms part of the assessment. Assessments on all other loan classes are performed on a judgemental basis.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.6 Credit quality of loans and advances and other financial instruments (continued)

(i) Credit quality and management of loans and advances (continued)

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 30 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.6 Credit quality of loans and advances and other financial instruments (continued)

(i) Credit quality and management of loans and advances (continued)

Subsequent credit assessments (continued)

The table below shows the loans and advances age analysis as required by the Banking Institutions Act:

	Stage 1		Stage 2		Stage 3	
Group	Not past due	0–30 days N$'000	31–60 days N$'000	61–90 days N$'000	More than 90 days N$'000	Total N$'000
As at 30 June 2019						
Overdrafts	4,654,126	495,685	12,883	31,457	382,321	5,576,472
Term loans	11,363,218	139,865	47,933	95,310	355,436	12,001,762
Mortgages	16,148,436	525,174	198,244	109,515	767,494	17,748,863
Instalment finance	3,038,935	43,793	7,560	11,447	107,540	3,209,275
Preference shares	409,743	–	–	–	–	409,743
Total gross loans and advances[1]	35,614,458	1,204,517	266,620	247,729	1,612,791	38,946,115
Impairments raised	(152,536)	(71,657)	(15,861)	(14,738)	(508,727)	(763,519)
Net loans and advance[1]	35,461,922	1,132,860	250,759	232,991	1,104,064	38,182,596

[1] *Excludes the impact of interest in suspense and the IFRS 9 effective interest rate impact.*

			Special mention			Non-performing	
	Neither past due nor impaired N$'000	Past due not impaired N$'000	0–30 days N$'000	31–60 days N$'000	61–90 days N$'000	More than 90 days N$'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

* *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.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.6 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. Days in arrears are calculated based on the amount past due relative to the instalment amount. Loans and advances outstanding for longer than 90 days are considered non-performing and are included in stage 3 for the loss allowance calculation. As determined by the regulatory requirements, any asset which is overdue 30 days or more but less than 90 days shall be classified as special mention, at a minimum and is subject to impairment in accordance with the stage 2 calculations. The group follows a more conservative approach than the regulators and already classifies loans in 0–30 days on a watchlist, where, on a case-by-case basis, indicators of a possible future loss event exist. Additionally, loans that are made to a specific industry or individuals that are not past due, but we deem to be risky are assessed and in certain instances subject to impairment in accordance with the stage 2 calculations. Loans categorised on the watchlist are performing but subject to the impairment in accordance to the IFRS 9 calculations.

Non-performing loans and advances to customers before taking into consideration the cash flows from collateral held is N$1612.8 million (2018: 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 (Capped at net carrying value)	39,474	104,479	59,263	36,347	239,563
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	2019 N$'000	2018 N$'000
Namibia	**1,222,936**	829,389
Botswana	**278,585**	275,713
Zambia	**111,270**	132,593
	1,612,791	1,237,695

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.6 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	
	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
Cash and balances with the central bank	**1,572,616**	1,642,557	**663,895**	104,123
Financial assets at fair value through profit or loss	**2,037,188**	5,245,981	**428,092**	553,173
Financial assets at amortised cost	**897,187**	874,252	**272,782**	202,060
Financial assets at fair value through other comprehensive income	**4,742,725**	134,028	**476,153**	–
Due from other banks	**1,724,043**	1,773,529	**–**	–
Other assets	**412,740**	489,326	**61,009**	122,972

Balances with the central bank, treasury bills and government stock (financial assets at fair value through other comprehensive income) 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.

3. **FINANCIAL RISK MANAGEMENT (continued)**

3.2 **Credit risk (continued)**

3.2.6 ***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 2019					
Balances with the central bank	–	–	1,188,613	–	1,188,613
Cash balances	–	–	–	384,003	384,003
Financial assets at fair value through profit or loss	–	–	2,037,188	–	2,037,188
– Unit trust and money market investments	–	–	2,037,188	–	2,037,188
Financial assets at amortised cost	–	643,678	216,636	–	860,314
– Treasury bills	–	–	193,059	–	193,059
– Government stock	–	643,678	23,577	–	667,255
– Preference shares	–	–	–	–	–
Financial assets at fair value through other comprehensive income	–	–	4,741,333	1,392	4,742,725
– Investment securities	–	–	1,768	1,392	3,160
– Treasury bills	–	–	3,494,404	–	3,494,404
– Government stock	–	–	728,510	–	728,510
– Tradable instruments	–	–	476,153	–	476,153
– Other securities	–	–	40,498	–	40,498
Due from other banks	–	554,081	16,795	1,153,167	1,724,043
Other assets	–	–	–	412,740	412,740
Non-financial assets	1,278,746	–	–	–	1,278,746
Total assets (excluding loans and advances)	1,278,746	1,197,759	8,200,565	1,951,301	12,628,372

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.6 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 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
– Unit trust and 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	1,676,067	6,851,891	1,631,715	11,199,268

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)

for the year ended 30 June 2019

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.6 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 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.

3.2.7 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 30 June 2019 was N$8.8 million (30 June 2018: 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.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.8 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 2019				
Counterparties				
Sovereign and central bank	**5,407,179**	**–**	**206,751**	**–**
Security firms	**8,682**	**–**	**8,682**	**–**
Public sector entities	**363,609**	**–**	**123,450**	**–**
Banks	**2,133,868**	**–**	**606,932**	**–**
Corporate	**12,296,584**	**97,872**	**12,321,977**	**–**
Retail	**7,161,050**	**162,498**	**5,347,680**	**72,591**
Residential mortgage properties	**10,624,876**	**41,361**	**5,480,627**	**402**
Commercial real estate	**7,436,085**	**47,861**	**7,462,825**	**–**
Other assets	**6,472,113**	**–**	**4,345,012**	**–**
Included in other assets:				
– Listed shares	**3,160**	**–**	**3,160**	**–**
	51,904,046	**349,592**	**35,903,936**	**72,993**
Commitments	**3,003,896**	**–**	**1,301,996**	**–**
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	–

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.8 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:

	2019	2018
Namibia long-term local currency issuer default rating	**BB+**	BB+
Namibia long-term issuer default rating	**BB+**	BB+
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	**CCC-**	B
Zambia long-term issuer default rating	**CCC-**	B

3.2.9 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)

for the year ended 30 June 2019

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.9 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$'000	Financial assets at fair value through other comprehensive income N$'000	Financial assets 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[2] N$'000	Total N$'000
As at 30 June 2019								
Agriculture and forestry	–	–	–	–	–	2,140,681	–	2,140,681
Fishing	–	–	–	–	–	685,374	–	685,374
Mining	–	–	–	–	–	956,961	–	956,961
Manufacturing	–	–	–	–	–	866,729	–	866,729
Building and construction	–	–	–	–	–	1,366,829	–	1,366,829
Electricity, gas and water	–	–	–	–	–	1,681,518	–	1,681,518
Trade and accommodation[1]	–	–	–	–	–	3,990,379	–	3,990,379
Transport and communication	–	–	–	–	–	1,245,644	–	1,245,644
Finance and insurance	384,003	405,265	2,037,188	–	1,724,043	3,790,759	357	8,341,615
Real estate and business services	–	–	–	–	–	4,783,496	–	4,783,496
Government	1,188,613	4,337,460	–	897,187	–	4,920,377	–	11,343,637
Individuals	–	–	–	–	–	11,526,129	–	11,526,129
Other	–	–	–	–	–	858,226	412,383	1,270,609
Impairment	–	–	–	(36,873)	–	(763,519)	–	(800,392)
	1,572,616	4,742,725	2,037,188	860,314	1,724,043	38,049,583	412,740	49,399,209

[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)

for the year ended 30 June 2019

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.9 Credit concentration risk (continued)

Group	Cash and balances with the central bank N$'000	Investment securities N$'000	Financial assets 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[2] 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	–	–	–	–	–	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

[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)

for the year ended 30 June 2019

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.10 Credit risk concentration by geographical area

Group	Cash and balances with the central bank N$'000	Financial assets at fair value through other comprehensive income N$'000	Financial assets 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 2019								
Namibia	1,089,394	3,535,669	2,024,867	2,986	31,803,077	643,678	255,261	39,354,932
Botswana	335,258	730,904	12,321	811,106	5,476,856	–	113,837	7,480,282
South Africa	–	476,152	–	51,634	–	–	357	528,143
United Kingdom	–	–	–	13,818	–	–	–	13,818
United States of America	–	–	–	743,561	–	–	–	743,561
Zambia	147,964	–	–	3,761	769,650	216,636	43,285	1,181,296
Other countries[2]	–	–	–	97,177	–	–	–	97,177
	1,572,616	4,742,725	2,037,188	1,724,043	38,049,583	860,314	412,740	49,399,209

Group	Cash and balances with the central bank N$'000	Investment securities N$'000	Financial assets 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

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$97.0 million due from other banks.*

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.11 Write-off policy

The group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the group's recovery method is foreclosing on collateral and value of the collateral is such that there is no reasonable expectation of recovering in full.

3.2.12 Modification of financial assets

The group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to the term loans.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the under the original terms at initial recognition, when the modifications is not substantial and so does not result in derecognition of the original asset. The group monitors the subsequent performance of modified assets. The group may determine that the credit risk has significantly improved after the restructuring, so that the assets are moved from stage 3 to stage 2 (Lifetime ECL) to stage 1 (12-month ECL). This is only the case for assets which have been performed in accordance with the new terms for six consecutive months or more.

The group continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

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.

3. **FINANCIAL RISK MANAGEMENT (continued)**

3.3 **Market risk (continued)**

3.3.2 ***Foreign currency risk (continued)***

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:

Concentration of foreign currency denominated financial instruments

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 2019								
ASSETS								
Cash and balances with the central bank	1,089,394	147,964	–	–	335,258	–	–	1,572,616
Financial assets at fair value through profit or loss	2,024,867	–	–	–	12,321	–	–	2,037,188
Financial assets at amortised cost	643,678	216,636	–	–	–	–	–	860,314
Financial assets at fair value through other comprehensive income	3,535,669	–	–	–	730,904	476,152	–	4,742,725
Due from other banks	2,986	–	910,411	33,514	592,608	72,789	111,735	1,724,043
Loans and advances to customers	31,816,441	426,966	351,884	–	5,452,348	–	1,944	38,049,583
Other assets	255,261	43,285	–	–	113,837	357	–	412,740
Total financial assets	39,368,296	834,851	1,262,295	33,514	7,237,276	549,298	113,679	49,399,209
Non-financial assets	1,278,746	–	–	–	–	–	–	1,278,746
Total assets	40,647,042	834,851	1,262,295	33,514	7,237,276	549,298	113,679	50,677,955
LIABILITIES								
Due to other banks	72,623	33,029	140,047	–	4	–	–	245,703
Other borrowings	55,000	–	141,726	–	–	799,646	–	996,372
Debt securities in issue	4,176,819	–	–	–	328,598	1,165,557	–	5,670,974
Deposits	28,909,789	705,583	939,364	85,479	6,317,755	20,831	5,924	36,984,725
Other liabilities	457,261	27,109	–	–	82,162	5,959	–	572,491
Total financial liabilities	33,671,492	765,721	1,221,137	85,479	6,728,519	1,991,993	5,924	44,470,265
Non-financial liabilities	46,912	–	–	–	–	–	–	46,912
Total liabilities	33,718,404	765,721	1,221,137	85,479	6,728,519	1,991,993	5,924	44,517,177
Total equity (including NCI)	6,160,778	–	–	–	–	–	–	6,160,778
Total equity and liabilities	39,879,182	765,721	1,221,137	85,479	6,728,519	1,991,993	5,924	50,677,955
Net financial position of financial instruments	5,696,804	69,130	41,158	(51,965)	508,757	(1,442,695)	107,755	4,928,944
Credit commitments	–	–	106,049	5,303	–	18,337	–	129,689

[1] *The Namibian dollar is pegged to the South African rand and is therefore not exposed to currency risk.*

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

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 2019								
ASSETS								
Cash and bank balances	328,980	–	266,909	–	68,006	–	–	663,895
Financial assets at fair value through profit or loss	428,092	–	–	–	–	–	–	428,092
Financial assets at fair value through other comprehensive income	–	–	–	–	–	476,153	–	476,153
Financial assets at amortised cost	–	121,030	–	–	134,620	–	–	255,650
Other assets	44,937	16,072	–	–	–	–	–	61,009
Total financial assets	802,009	137,102	266,909	–	202,626	476,153	–	1,884,799
Non-financial assets	1,739,573	–	–	–	–	–	–	1,739,573
Total assets	2,541,582	137,102	266,909	–	202,626	476,153	–	3,624,372
LIABILITIES								
Other borrowings	–	–	141,726	–	–	–	–	141,726
Debt securities in issue	1,595,772	–	–	–	173,957	–	–	1,769,729
Other liabilities	44,162	–	–	–	–	–	–	44,162
Total financial liabilities	1,639,934	–	141,726	–	173,957	–	–	1,955,617
Non-financial liabilities	485	–	–	–	–	–	–	485
Total liabilities	1,640,419	–	141,726	–	173,957	–	–	1,956,102
Total equity (including NCI)	1,668,270	–	–	–	–	–	–	1,668,270
Total equity and liabilities	3,308,689	–	141,726	–	173,957	–	–	3,624,372
Net financial position of financial instruments	(837,925)	137,102	125,183	–	28,669	476,153	–	(70,818)

[1] *The Namibian dollar is pegged to the South African rand and is therefore not exposed to currency risk.*

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.2 Foreign currency risk (continued)

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								
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								
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	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

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)

[1] *The Namibian dollar is pegged to the South African rand and is therefore not exposed to currency risk.*

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.2 Foreign currency risk (continued)

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:

	2019	2018
USD	**14.17**	13.82
GBP	**17.99**	18.18
EUR	**16.12**	16.09
ZAR	**1.00**	1.00
ZMW	**1.10**	1.37
BWP	**1.33**	1.31

	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:	**2019 N$'000**	**2018 N$'000**	**2019 N$'000**	**2018 N$'000**
US dollar/Namibian dollar	**1,661**	7,572	**3,154**	36
– Foreign currency financial assets	**35,581**	34,254	**9,095**	3,633
– Foreign currency financial liabilities	**(33,920)**	(26,682)	**(5,941)**	(3,597)
Euro/Namibian dollar	**2,001**	1,371	**–**	–
– Foreign currency financial assets	**4,601**	5,304	**–**	–
– Foreign currency financial liabilities	**(2,600)**	(3,933)	**–**	–

	Group	
	Effect on other comprehensive income	
The following effect of 5% change would arise on equity instruments:	**2019 N$'000**	**2018 N$'000**
Effect of US dollar denominated equity instrument	**–**	6,669

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 1 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)

for the year ended 30 June 2019

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 2019						
ASSETS						
Cash and balances with the central bank	481,510	–	–	–	1,091,106	1,572,616
Financial assets at fair value through profit or loss	2,021,101				16,087	2,037,188
Financial assets at amortised cost	–	23,231	274,073	599,883	(36,873)	860,314
Financial assets at fair value through other comprehensive income	1,640,635	449,421	2,357,279	292,230	3,160	4,742,725
Due from other banks	1,724,043	–	–	–	–	1,724,043
Loans and advances to customers	30,624,318	181,567	797,741	5,751,160	694,797	38,049,583
Other assets	89,123	–	78,678	–	244,939	412,740
Total financial assets	36,580,730	654,219	3,507,771	6,643,273	2,013,216	49,399,209
Non-financial assets	–	–	–	–	1,278,746	1,278,746
Total assets	36,580,730	654,219	3,507,771	6,643,273	3,291,962	50,677,955
LIABILITIES						
Due to other banks	245,703	–	–	–	–	245,703
Other borrowings	–	996,372	–	–	–	996,372
Debt securities in issue	136,672	789,877	200,044	4,544,381	–	5,670,974
Deposits	16,784,464	4,211,006	10,801,457	5,187,798	–	36,984,725
Other liabilities	5,959	–	–	–	566,532	572,491
Total financial liabilities	17,172,798	5,997,255	11,001,501	9,732,179	566,532	44,470,265
Total non-financial liabilities	–	–	–	–	46,912	46,912
Total liabilities	17,172,798	5,997,255	11,001,501	9,732,179	613,444	44,517,177
Total equity (including NCI)	–	–	–	–	6,160,778	6,160,778
Total equity and liabilities	17,172,798	5,997,255	11,001,501	9,732,179	6,774,222	50,677,955
Interest sensitivity gap (financial instruments)	19,407,932	(5,343,036)	(7,493,730)	(3,088,906)	1,446,684	4,928,944
Cumulative interest sensitivity gap (financial instruments)	19,407,932	14,064,896	6,571,166	3,482,260	4,928,944	
As at 30 June 2018						
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	

The interest rate sensitivity gap is determined based on methodology applied when reviewing interest rate risk. The interest rate sensitivity gap is measured and monitored at the ALCO monthly.

3. **FINANCIAL RISK MANAGEMENT (continued)**

3.3 **Market risk (continued)**

3.3.3 Interest rate risk (continued)

(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	
	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
The following interest rate sensitivity is based on the effect of changes to the interest rate over a twelve-month period on net interest income:				
50 basis points increase	**60,674**	55,658	**(2,287)**	(687)
– Increase in interest income	**243,507**	223,854	**5,327**	4,240
– Increase in interest expense	**(182,833)**	(168,196)	**(7,614)**	(4,927)
50 basis points decrease	**(49,635)**	(48,371)	**2,287**	687
– Decrease in interest income	**(229,480)**	(165,671)	**(5,327)**	(4,240)
– Decrease in interest expense	**179,845**	117,300	**7,614**	4,927
100 basis points increase	**120,275**	111,009	**(4,575)**	(1,373)
– Increase in interest income	**487,530**	448,366	**10,654**	8,481
– Increase in interest expense	**(367,255)**	(337,357)	**(15,228)**	(9,854)
100 basis points decrease	**(100,562)**	(97,861)	**4,575**	1,373
– Decrease in interest income	**(458,354)**	(427,759)	**(10,654)**	(8,481)
– Decrease in interest expense	**357,792**	329,898	**15,228**	9,854
200 basis points increase	**239,951**	222,453	**(9,149)**	(2,746)
– Increase in interest income	**977,341**	899,313	**21,307**	16,961
– Increase in interest expense	**(737,390)**	(676,860)	**(30,457)**	(19,707)
200 basis points decrease	**(238,777)**	(228,679)	**9,149**	2,746
– Decrease in interest income	**(915,330)**	(853,637)	**(21,307)**	(16,961)
– Decrease in interest expense	**676,553**	624,958	**30,457**	19,707

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 measured at fair value through profit or loss and equity securities measured at fair value through other comprehensive income. The equity securities are listed on the FTSE and NYSE and are included in "Financial assets at fair value through other comprehensive income" 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	**2019 N$'000**	**2018 N$'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
	10 % decrease in share price (effect on other comprehensive income)	**–**	(13,338)
(ii)	*Derivative financial instruments*		
	The following is a sensitivity analysis showing the increase/(decrease) in the fair value of derivative instruments had the following changes arisen on the significant inputs:		
	100 basis points increase in discount rate (effect on profit or loss)	**285**	–
	100 basis points decrease in discount rate (effect on profit or loss)	**(285)**	–
(iii)	*Financial assets at fair value*		
	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)	**(12,998)**	(11,067)
	100 basis points decrease in discount rate (effect on profit or loss)	**13,134**	11,198
	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)	**(5,407)**	(5,940)
	100 basis points decrease in discount rate (effect on profit or loss)	**12,564**	6,152

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	
	2019 N$'000	**2018 N$'000**
Interest rate risk	**45,018**	41,366
Foreign exchange risk	**3,861**	8,656

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.

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 2019						
FINANCIAL LIABILITIES						
Due to other banks	245,703	–	–	–	–	245,703
Other borrowings	493	160,985	221,356	718,839	113,260	1,214,933
Debt securities in issue	14,465	214,365	1,073,487	3,610,438	2,798,509	7,711,264
Deposits	16,979,424	3,474,076	11,940,131	4,683,117	1,430,019	38,506,767
Other liabilities	571,162	–	608	9,355	–	581,125
Total liabilities (contractual maturity dates)	17,811,247	3,849,426	13,235,582	9,021,749	4,341,788	48,259,792
Commitments	3,104,835	–	–	–	–	3,104,835
Loan commitments	1,699,163	–	–	–	–	1,699,163
Liabilities under guarantees	1,280,854	–	–	–	–	1,280,854
Letters of credit	124,818	–	–	–	–	124,818

	Contractual undiscounted cash flows					
Company	**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 2019						
FINANCIAL LIABILITIES						
Other borrowings	–	141,726	–	–	–	141,726
Debt securities in issue	8,880	19,804	74,187	1,377,545	1,086,996	2,567,412
Other liabilities	19,593	24,569	–	–	–	44,162
Total liabilities (contractual maturity dates)	28,473	186,099	74,187	1,377,545	1,086,996	2,753,300

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for the year ended 30 June 2019

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 2018						
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	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

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

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:

Group	Carrying value N$'000	Contractual discounted cash flows Call to 1 month N$'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 2019							
ASSETS							
Cash and balances with the central bank	–	1,572,616	–	–	–	–	1,572,616
Financial assets at fair value through profit or loss	–	2,037,188	–	–	–	–	2,037,188
Financial assets at amortised cost	–	–	5,481	310,259	54,982	526,465	897,187
Financial assets at fair value through other comprehensive income	–	1,275,831	609,381	2,357,279	499,416	818	4,742,725
Due from other banks	–	1,724,043	–	–	–	–	1,724,043
Gross loans and advances to customers	–	5,704,097	125,148	503,542	11,219,831	21,393,497	38,946,115
Other assets	–	407,195	29	328	5,188	–	412,740
Non-financial instruments	1,278,746	–	–	–	–	–	1,278,746
Effective interest rate impact	(133,013)	–	–	–	–	–	(133,013)
Impairment	(800,392)	–	–	–	–	–	(800,392)
Total assets	345,341	12,720,970	740,039	3,171,408	11,779,417	21,920,780	50,677,955
LIABILITIES							
Due to other banks	–	245,703	–	–	–	–	245,703
Other borrowings	–	–	141,726	219,267	574,271	61,108	996,372
Debt securities in issue	–	–	138,202	583,349	3,241,411	1,708,012	5,670,974
Deposits	–	16,784,464	3,496,477	11,515,986	4,235,247	952,551	36,984,725
Other liabilities	–	563,249	–	608	8,634	–	572,491
Non-financial instruments	46,912	–	–	–	–	–	46,912
Total liabilities	46,912	17,593,416	3,776,405	12,319,210	8,059,563	2,721,671	44,517,177
Net liquidity gap	298,429	(4,872,446)	(3,036,366)	(9,147,802)	3,719,854	19,199,109	6,160,778
Cumulative liquidity gap	298,429	(4,574,017)	(7,610,383)	(16,758,185)	(13,038,331)	6,160,778	

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for the year ended 30 June 2019

3. **FINANCIAL RISK MANAGEMENT (continued)**

3.4 **Liquidity risk (continued)**

Liquidity risk analysis (continued)

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 2019							
ASSETS							
Cash and bank balances	–	663,895	–	–	–	–	663,895
Financial assets at fair value through profit or loss	–	428,092	–	–	–	–	428,092
Financial assets at fair value through other comprehensive income	–	476,153	–	–	–	–	476,153
Financial assets at amortised cost	–	–	–	–	–	255,650	255,650
Other assets	–	61,009	–	–	–	–	61,009
Non-financial instruments	1,739,573	–	–	–	–	–	1,739,573
Total assets	1,739,573	1,629,149	–	–	–	255,650	3,624,372
LIABILITIES							
Other borrowings	–	–	141,726	–	–	–	141,726
Debt securities in issue	–	–	24,729	–	845,000	900,000	1,769,729
Other liabilities	–	19,593	24,569	–	–	–	44,162
Non-financial instruments	485	–	–	–	–	–	485
Total liabilities	485	19,593	191,024	–	845,000	900,000	1,956,102
Net liquidity gap	1,739,088	1,609,556	(191,024)	–	(845,000)	(644,350)	1,668,270
Cumulative liquidity gap	1,739,088	3,348,644	3,157,620	3,157,620	2,312,620	1,668,270	

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for the year ended 30 June 2019

3. **FINANCIAL RISK MANAGEMENT (continued)**

3.4 **Liquidity risk (continued)**

Liquidity risk analysis (continued)

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
		Contractual discounted cash flows					
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	

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for the year ended 30 June 2019

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

Liquidity risk analysis (continued)

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	

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 liquidity market in Namibia, a negative maturity mismatch between assets and liabilities is an industry norm.

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 at fair value through profit or loss

Treasury bills

Treasury bills are measured at fair value through other comprehensive income 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 measured at fair value through other comprehensive income 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.

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.

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

(a) Fair value estimation (continued)

(iii) Financial assets at fair value through profit or loss (continued)

Corporate bonds

Corporate bonds guaranteed by the respective corporates are measured at fair value through other comprehensive income 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.

(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 (2018: 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$389.4 million (2018: N$625.4 million), refer to note 3.5(b).

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

(a) Fair value estimation (continued)

(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.

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

Group	Level 1 N$'000	Level 2 N$'000	Level 3 N$'000	Total N$'000
As at 30 June 2019				
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
Unit trust and money market investments	673,150	1,364,038	–	2,037,188
Derivative financial instruments (included in other assets)	–	357	–	357
Financial assets at fair value through other comprehensive income	1,768	4,739,565	1,392	4,742,725
Treasury bills	–	3,494,404	–	3,494,404
Government stock	–	728,511	–	728,511
Corporate bonds	–	40,498	–	40,498
Tradable instruments	–	476,152	–	476,152
Investment securities – listed	1,768	–	–	1,768
Investment securities – unlisted	–	–	1,392	1,392
	674,918	6,103,960	1,392	6,780,270
Financial assets for which the fair value is disclosed				
Loans and advances to customers	–	–	39,383,373	39,383,373
Financial assets at amortised cost	–	927,876	–	927,876
Treasury bills	–	237,760	–	237,760
Government stock	–	690,116	–	690,116
Director's valuation of investment in associates	88,737	727,501	–	816,238
Director's valuation of investment in joint arrangement	–	–	11,016	11,016
	88,737	1,655,377	39,394,389	41,138,503
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments (included in other liabilities)	–	5,959	–	5,959
Financial liabilities for which the fair value is disclosed				
Other borrowings	–	–	1,014,814	1,014,814
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	–	–	389,416	389,416
Promissory notes	–	–	389,416	389,416
	–	–	6,143,008	6,143,008

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for the year ended 30 June 2019

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (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

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

Company	Level 1 N$'000	Level 2 N$'000	Level 3 N$'000	Total N$'000
As at 30 June 2019				
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
Unit trust and money market investments	48,438	379,654	–	428,092
Financial assets at fair value through other comprehensive income				
Tradable instruments	–	476,153	–	476,153
	48,438	855,807	–	904,245
Financial assets for which the fair value is disclosed				
Financial assets at amortised cost				
Preference shares	–	–	255,650	255,650
	–	–	255,650	255,650
Financial liabilities for which the fair value is disclosed				
Other borrowings	–	–	141,726	141,726
Debt securities in issue	–	–	1,769,729	1,769,729
Preference shares	–	–	1,088,076	1,088,076
Bonds and debentures	–	–	681,653	681,653
	–	–	1,911,455	1,911,455
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				
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

No transfers between level 1, level 2 or level 3 fair value measurements occurred during the year under review.

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	
	2019 N$'000	**2018 N$'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	**(1,162,344)**	(1,129,745)
100 basis points decrease in discount rate	**1,549,895**	1,218,697
100 basis points increase in earnings rate	**197,669**	148,343
100 basis points decrease in earnings rate	**(209,117)**	(148,343)
1 month increase in term to maturity	**(124,190)**	(55,481)
1 month decrease in term to maturity	**128,068**	53,446
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	**(934)**	(243)
100 basis points decrease in discount rate	**944**	248
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	**(1,182)**	(1,043)
100 basis points decrease in discount rate	**857**	1,056
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	**(71,847)**	(49,257)
100 basis points decrease in discount rate	**75,499**	9,590
100 basis points increase in coupon rate	**72,791**	27,089
100 basis points decrease in coupon rate	**(72,791)**	(39,089)
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	**(103,895)**	(82,243)
100 basis points decrease in discount rate	**109,176**	86,324
100 basis points increase in coupon rate	**106,442**	87,805
100 basis points decrease in coupon rate	**(106,442)**	(87,805)
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	**(1,290)**	(5,723)
100 basis points decrease in discount rate	**1,727**	6,951
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)
100 basis points decrease in discount rate	**–**	23
100 basis points increase in coupon rate	**–**	140
100 basis points decrease in coupon rate	**–**	(140)

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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) 2019	2018
Financial assets measured at fair value				
Financial assets at fair value through profit or loss and at fair value through other comprehensive income				
Treasury bills	Income approach*	Note 1	BW: 6.8 % – 7.9 % BG: 1.2 % – 1.5 %	BW:6.8 % – 8.2 % BG: 1.2 % – 1.5 %
Government stock	Income approach*	Note 1	BW & Entrepo: 7.3 % – 9.9 %	BW & Entrepo: 7.3 % – 10.4 %
Unit trust investments	Market approach**	Note 4	BW 7.1 % – 7.7 %	Note 4
– OTC currency options	Income approach*	Note 1	EUR16.3 – 17.1 US$13.6 – 17.6	EUR14.5 – 16.6 US$11.9 – 12.1
Other debt securities				
– Corporate bonds	Income approach*	Note 1	BW 8.9 %	BW: 8.9 %
Financial assets for which the fair value is disclosed				
Loans and advances to customers	Income approach*			
– Discount rate		Note 1	BW: 10.5 % BG: 6.5 % CB: 12.0 % and 29.8 % Entrepo: 21.5 %	BW: 10.5 % BG: 6.5 % CB: 10.0 % and 29.3 % Entrepo: 18.5 % – 21.5
– Earnings rate		Note 2	BW: 6.3 % – 19.7 % BG: 4.5 % – 32.0 % CB: 0.0 % – 30.5 % Entrepo: 18.5 % – 21.5 %	BW: 6.3 % – 19.7 % BG: 4.5 % – 32.0 % CB: 0.0 % – 33.5 % Entrepo: 18.5 % – 21.5 %
– Term to maturity		Note 3	3 – 360 mth	3 – 360 mth
Financial assets at amortised cost				
Treasury bills	Income approach*	Note 1	BW: 7.9 % – 10.7 % CB: 13.6 % – 20.9 %	BW: 6.4 % – 8.2 % CB: 4.8 % – 15.5 %
Government stock	Income approach*	Note 1	BW: 7.5 % – 15.2 % CB: 16.0 % – 25.5 %	BW: 7.3 % – 10.1 % CB: 16.0 % – 25.0 %

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) 2019	2018
Derivative financial instruments	Income approach*	Note 1	BW: 7.7 % – 8.5 %	BW: 7.2 % – 8.5 %
Financial liabilities for which the fair value is disclosed				
Other borrowings	Income approach*			
– Discount rate		Note 1	BW: 7.9 % – 10.7 % CG: 4.9 % ***	BW: 7.6 % – 11.8 % CG: 4.3 % ***
– Earnings rate		Note 1	BW: 7.5 % – 15.2 % CG: 4.9 % ***	BW: 8.2 % – 12.0 % CG: 4.3 % ***
Debt securities in issue				
Five-year callable bonds	Income approach*	Note 1	BW: 8.3 % BG: 5.8 %	BW: 9.8 % BG: 5.8 %
Senior debt – unsecured	Income approach*	Note 1	BW: 5.2 % – 9.2 % BG: 3.2 % – 7.8 %	BW: 7.0 % – 11.3 % BG: 3.2 % – 7.8 %
Debentures	Income approach*	Note 1	BW: 7.2 % – 7.8 %	BW: 7.0 % – 11.3 % BG: 3.2 % – 7.8 %
Deposits				
Promissory notes	Income approach*	Note 1	BW: 7.3 % – 7.9 %	BW: 7.5 % – 8.2 %
Replica notes	Income approach*	Note 1	n/a	BW: 7.3 %

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.*
BW: *Bank Windhoek Ltd*
BG: *Bank Gaborone Ltd*
CB: *Cavmont Bank Ltd*
CG: *Capricorn Group*

3.6 Insurance risk

The group assumes insurance risk by issuing insurance contracts, under which the group agrees to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) affecting the policyholder occurs. Insurance risk includes mortality and morbidity risk.

For accounting purposes insurance risk is defined as risk other than financial risk. Contracts issued by the group may include both insurance and financial risk; contracts with significant insurance are classified as insurance contracts, while contracts with no or insignificant insurance risk are classified as investment contracts.

The group effectively manages its insurance risk through the following mechanisms:
- The maintenance and use of sophisticated management information systems, which provide current data on the risks to which the business is exposed and the quantification of such risks.
- Guidelines for concluding insurance contracts and assuming insurance risks. These include underwriting principles and product pricing procedures.
- The mix of assets, which is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to ensure that there are sufficient interest bearing assets to match the guaranteed portion of liabilities.

All insurance contracts issued by the group are entered into with individuals. These are low-value high-volume contracts, thus limiting single-party exposure.

The policyholder liability was calculated with the following assumptions:
- a discount rate of 6 %;
- a tax assumption of 40 % of investment income being taxed at a rate of 32 %;
- expense inflation of 6 %; and
- the incurred-but-not-reported (IBNR) liability was determined using the Bornhuetter-Ferguson method.

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for the year ended 30 June 2019

3. FINANCIAL RISK MANAGEMENT (continued)

3.7 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

3. FINANCIAL RISK MANAGEMENT (continued)

3.7 Capital management (continued)

Deduction approach means deductions of 50 percent of the cost of investment in the affiliate is made from Tier 1 capital and 50 percent 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.

	Group	
	2019 N$'000	**2018 N$'000**
Tier 1 capital		
Share capital and premium	**765,507**	769,933
General banking reserves	**3,843,797**	3,814,879
Retained earnings	**1,580,520**	1,388,980
Minority interests	**345,382**	276,499
Subtotal	**6,535,206**	6,250,291
Deduct: 50 % investments in group entities		
Goodwill	**(101,489)**	(101,489)
50 % investments in deconsolidated financial subsidiaries, significant minority and majority insurance entities and significant commercial entities	**(298,837)**	(310,919)
Net total Tier 1 capital	**6,134,880**	5,837,883
Tier 2 capital		
Subordinated debt	**310,750**	253,158
Five-year callable bonds	**310,750**	253,158
Subtotal	**310,750**	253,158
Deduct: 50 % investments in group entities		
50 % investments in deconsolidated financial subsidiaries, significant minority and majority insurance entities and significant commercial entities	**(255,753)**	(133,588)
Net total Tier 2 capital	**54,997**	119,570
Total regulatory capital	**6,189,877**	5,957,453
Risk-weighted assets:		
Operational risk	**4,866,635**	4,623,353
Credit risk	**37,205,932**	33,606,443
Market risk	**495,551**	500,225
Total risk-weighted assets	**42,568,118**	38,730,021

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	**10.9%**	11.8 %
Tier 1 risk-based capital ratio	**12.3%**	15.1 %
Total risk-based capital ratio	**14.9%**	15.4 %

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 2018, 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 3.2.6 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.

(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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

(f) Treatment of income and expenses

Capricorn Group's operating model is that of a 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.

(g) 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.

(h) Measurement of expected credit loss

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 3.2.2.2., which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:
- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the group in the above areas is set out in note 3.2.1.

5. NET INTEREST INCOME

	Group		Company	
	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
Interest and similar income				
Amortised cost				
Loans and advances	4,216,507	3,743,277	–	–
Cash and short-term funds	108,759	133,635	57,727	3,626
Financial assets at amortised cost	143,311	64,255	8,267	13,234
Treasury bills	39,187	33,481	–	–
Government stock and other investments	104,124	30,774	–	–
Preference shares from subsidiaries	–	–	8,267	13,234
Fair value				
Financial assets designated at fair value through profit or loss	–	303,048	–	51,491
Treasury bills	–	192,311	–	–
Government stock and other investments	–	110,737	–	51,491
Financial assets at fair value through other comprehensive income	271,977	–	–	–
Treasury bills	250,361	–	–	–
Government stock and other investments	21,616	–	–	–
Total interest and similar income	4,740,554	4,244,215	65,994	68,351
Interest and similar expenses				
Amortised cost				
Demand deposits	247,870	239,118	–	–
Term and notice deposits	790,027	779,300	–	–
Negotiable certificates of deposits	602,122	547,128	–	–
Cheque deposits	210,687	199,998	–	–
Debt securities in issue	426,934	343,000	96,531	36,645
Savings deposits	67,934	67,323	–	–
Deposits from banks and financial institutions	38,271	20,914	–	–
Other borrowings	140,202	127,473	30,227	2,454
Promissory notes	73,068	55,468	–	–
Other	10,566	45,596	146	36,920
Total interest and similar expenses	2,607,681	2,425,318	126,904	76,019
Net interest income	2,132,873	1,818,897	(60,910)	(7,668)

6. CREDIT IMPAIRMENT LOSSES

	Group 2019 N$'000	Group 2018 N$'000	Company 2019 N$'000	Company 2018 N$'000
Increase in credit impairment losses on loans and advances (note 17)	35,865	61,337	–	–
Increase in credit impairment losses on financial assets at amortised cost (note 14)	17,177	–	15,721	
Amounts written off as uncollectable	72,993	33,607	–	–
Amounts recovered during the year	(11,488)	(14,104)	–	–
	114,547	80,840	15,721	–

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for the year ended 30 June 2019

7. NON-INTEREST INCOME

		Group 2019 N$'000	Group 2018 N$'000	Company 2019 N$'000	Company 2018 N$'000
7.1	**Fee and commission income**				
	Transaction and related fees	**908,081**	827,344		
	Cards and electronic channels	**391,053**	341,074		
	Transaction-based fee income	**424,933**	407,538		
	Lending activities	**78,535**	67,735		
	Other charges	**13,560**	10,997		
	Commissions	**40,706**	42,931		
	Trust and fiduciary fees	**11,178**	15,171		
		959,965	885,446		
7.2	**Net trading income**				
	Net foreign exchange gains and losses	**38,202**	89,695	**–**	–
	Net gain from financial instruments at fair value	**100,319**	9,029	**8,340**	(10,767)
	Net investment income	**5,272**	–	**–**	–
		143,793	98,724	**8,340**	(10,767)

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 at fair value includes the gains and losses from treasury bills, government stock and derivative financial instruments.

		Group 2019 N$'000	Group 2018 N$'000	Company 2019 N$'000	Company 2018 N$'000
7.3	**Other operating income**				
	Commission and insurance-related income	**3,049**	865	**2,328**	865
	Contingent consideration and indemnities received	**–**	–	**–**	8,000
	Dividend received	**28,236**	16,283	**941,802**	444,919
	Gain on bargain purchase of subsidiary	**–**	38,837	**–**	–
	Interest received	**–**	–	**19,390**	1,142
	Net foreign exchange gains and losses	**–**	–	**(24,608)**	1,223
	Profit on sale of investment securities	**–**	77,330	**–**	–
	Support services rendered	**364**	–	**46,054**	46,458
	Other	**2,381**	6,453	**1,362**	607
		34,030	139,768	**986,328**	503,214
7.4	**Net insurance premium income**				
	Gross written premiums	**192,430**	–	**–**	–
	Change in unearned premium provision	**(62,380)**	–	**–**	–
		130,050	–	**–**	–
7.5	**Net claims and benefits paid**				
	Gross insurance contract claims	**(25,540)**	–	**–**	–
	Transfer to provision for IBNR claims	**(1,001)**	–	**–**	–
		(26,541)	–	**–**	–
7.6	**Asset management and administration fees**				
	Asset management and administration fees	**118,187**	101,230	**–**	–
		118,187	101,230	**–**	–
	Total non-interest income	**1,359,484**	1,225,168	**994,668**	492,447
7.7	**Types of revenue from contracts with customers**				
	Fee and commission income	**959,965**	885,446	**–**	–
	Other operating income	**3,413**	865	**48,382**	47,323
	Asset management and administration fees	**118,187**	101,230	**–**	–
	Income other than from contracts with customers	**277,919**	237,627	**946,286**	445,124
	Total revenue	**1,359,484**	1,225,168	**994,668**	492,447

7. NON-INTEREST INCOME (continued)

		Group		Company	
		2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
7.8	**Disaggregation of revenue from contracts with customers**				
(a)	**Over time**				
	Transaction and related fees	**92,095**	78,732	**–**	–
	Lending activities	**78,535**	67,735	**–**	–
	Other charges	**13,560**	10,997	**–**	–
	Commission and insurance related income	**3,049**	865	**2,328**	865
	Support services rendered	**364**	–	**46,054**	46,458
	Asset management and administration fees	**118,187**	101,230	**–**	–
		213,695	180,827	**48,382**	47,323
(b)	**At a specific point in time**				
	Transaction and related fees	**815,986**	748,612	**–**	–
	Cards and electronic channels	**391,053**	341,074	**–**	–
	Transaction based fee income	**424,933**	407,538	**–**	–
	Commissions	**40,706**	42,931	**–**	–
	Trust and fiduciary fees	**11,178**	15,171	**–**	–
		867,870	806,714	**–**	–
(c)	**Income other than from contracts with customers**	**277,919**	237,627	**946,286**	445,124
	Total	**1,359,484**	1,225,168	**994,668**	492,447

8. STAFF COSTS

	Group		Company	
	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
Salaries and wages	**1,024,314**	874,101	**72,489**	57,123
Share-based payment expense	**11,802**	8,921	**5,081**	2,350
Staff training costs	**23,652**	18,450	**4,508**	3,011
Pension costs – defined contribution plan	**61,094**	54,559	**3,570**	3,278
Adjustment to fair value for interest-free loans	**–**	483	**–**	–
Severance pay liability (note 30)	**2,267**	2,692	**–**	–
	1,123,129	959,206	**85,648**	65,762

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for the year ended 30 June 2019

9. OPERATING EXPENSES

Expenses by nature

9.1 Normal operating expenses				
Advertising and marketing	**43,916**	34,560	**5,125**	5,055
Amortisation of intangible assets (note 22)	**35,430**	49,827	**–**	–
Asset management fees	**2,516**	–	**–**	–
Auditor's remuneration	**–**	–	**–**	
– Audit fees	**10,253**	8,875	**665**	460
– Fees for other services	**1,123**	893	**270**	176
– Non-executive directors' emoluments	**8,567**	8,706	**4,593**	4,606
Depreciation of property, plant and equipment (note 23)	**66,913**	47,261	**–**	–
Finance costs	**–**	2,805	**–**	2,454
Impairment on investments	**–**	–	**112,352**	–
Insurance costs	**14,286**	6,608	**–**	–
Motor vehicle costs	**4,871**	3,285	**–**	–
Office expense	**6,491**	6,057	**300**	300
Operating lease rentals – immovable property	**119,285**	103,069	**–**	15
Professional services	**93,195**	75,962	**18,698**	12,350
Repairs and maintenance	**53,199**	46,494	**–**	–
Security expenses	**15,874**	23,318	**–**	–
Staff costs (note 8)	**1,123,129**	959,206	**85,648**	65,762
Stamp duty	**20,184**	16,616	**1,900**	506
Stationery and printing	**16,215**	18,394	**22**	68
Subscription fees	**10,832**	8,934	**220**	186
Technology costs	**109,858**	91,691	**–**	199
Telephone, postage and courier costs	**19,096**	17,085	**185**	51
Travelling	**18,489**	12,719	**2,846**	2,029
Valuation fees	**14,014**	8,145	**–**	–
Water and electricity	**25,263**	24,753	**–**	–
Other expenses	**36,013**	61,805	**4,588**	3,682
	1,869,012	1,637,068	**237,412**	97,899
9.2 Fee and commission expenses				
Association transaction fees	**122,128**	103,409	**–**	–
Commission	**10,977**	7,142	**–**	–
Cash handling fees	**12,515**	9,395	**–**	–
Other retail banking expenses	**37,406**	38,094	**–**	–
	183,026	158,040	**–**	–
Total operating expenses	**2,052,038**	1,795,108	**237,412**	97,899

During the year under review, the company impaired the entire carrying amount of its investment in Cavmont Capital Holdings Zambia Plc and Mukumbi Investments (Pty) Ltd. The impairment was triggered due to losses suffered. The two subsidiaries had a combined carrying value of N$112.4 million before the impairment. The value in use of these entities was determined using the present value of expected dividend receipts. The value in use was determined to be nil. No goodwill was carried in relation to these two entities on a consolidated level and thus no impairment relating to goodwill was identified.

Research and development costs of N$1.2 million (2018: N$0.4 million) are included in operating expenses above.

10. SHARE OF ASSOCIATES' RESULTS AFTER TAX

The following represents Capricorn Group's share of the associates' after tax results:

	Group		Company	
	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
Profit before taxation	**84,289**	104,498		
Taxation	**(11,632)**	(21,262)		
	72,657	83,236		

11. INCOME TAX EXPENSE

11.1 Normal tax

	Group		Company	
	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
Current tax	**428,648**	325,659	**–**	–
– current year	**428,648**	325,659	**–**	–
– prior year	**–**	–	**–**	–
Deferred tax	**(41,843)**	(7,593)	**(8,333)**	(6,245)
– current year	**(41,843)**	(7,593)	**(8,333)**	(6,245)
– prior year	**–**	–	**–**	–
Total normal tax	**386,805**	318,066	**(8,333)**	(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		Company	
	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
Profit before tax and share of associates' results after tax	**1,329,447**	1,169,265	**680,625**	386,880
Tax at the applicable tax rate of 32% (2018: 32%)	**425,423**	374,165	**217,800**	123,802
Dividends received	**(45,974)**	(38,198)	**(301,376)**	(142,423)
Fair value adjustment on interest-free staff loans and investments	**2,713**	–	**–**	–
Other non-taxable income	**(76,389)**	(42,601)	**(5,412)**	(4,555)
Non-deductible expenses	**77,107**	36,376	**80,655**	20,202
Derecognise previously recognised deferred tax asset	**2,723**	–	**–**	–
Unrecognised deferred tax asset	**2,823**	–	**–**	–
Expired assessed loss	**5,798**	–	**–**	–
Utilised tax loss previously not recognised	**–**	(3,271)	**–**	(3,271)
Difference in tax rates	**(7,419)**	(8,405)	**–**	–
Income tax expense	**386,805**	318,066	**(8,333)**	(6,245)
Effective tax rate	**29.1%**	27.2%	**(1.2%)**	(1.6%)

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.

Group	2019 Gross N$'000	2019 Taxation N$'000	2019 Net N$'000
Earnings			
Profit for the year attributable to the equity holders of the parent entity			**929,889**
Headline adjustments	**(566)**	**–**	**(566)**
Other	**(566)**	**–**	**(566)**
Headline earnings			**929,323**

	2018 Gross N$'000	2018 Taxation N$'000	2018 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

	Group 2019	Group 2018
Number of ordinary shares in issue at year-end ('000) (note 31)	**512,116**	512,496
Adjusted for shares issued during the year ('000)	**–**	(1,730)
Weighted average number of ordinary shares in issue during the year ('000)	**512,116**	510,766
Adjusted for effect of future share-based payment transactions ('000)	**818**	880
Diluted weighted average number of ordinary shares in issue during the year ('000)	**512,934**	511,646
Earnings per ordinary share (cents)		
Basic	**181.6**	180.6
Fully diluted	**181.3**	180.3
Headline earnings per ordinary share (cents)		
Basic	**181.5**	157.9
Fully diluted	**181.2**	157.6

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13. CASH AND BALANCES WITH THE CENTRAL BANK

	Group		Company	
	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
Cash balances	**384,003**	363,917	**–**	–
Bank balances	**–**	–	**663,895**	104,123
Balances with the central bank other than mandatory reserve deposits	**481,510**	653,615	**–**	–
Included in cash and cash equivalents	**865,513**	1,017,532	**663,895**	104,123
Mandatory reserve deposits with the respective central banks	**707,103**	625,025	**–**	–
	1,572,616	1,642,557	**663,895**	104,123

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. Bank balances for the company reflects bank balances with Bank Windhoek Ltd.

14. FINANCIAL ASSETS

	Group		Company	
	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
Financial assets at fair value through profit or loss				
Treasury bills	**–**	3,221,439	**–**	–
Government stock	**–**	438,741	**–**	109,494
Unit trust and money market investments	**2,037,188**	1,133,882	**428,092**	31,972
Tradable instruments	**–**	411,707	**–**	411,707
Corporate bonds	**–**	40,212	**–**	–
	2,037,188	5,245,981	**428,092**	553,173
Current	**2,037,188**	3,934,401	**428,092**	118,177
Non-current	**–**	1,311,580	**–**	434,996
	2,037,188	5,245,981	**428,092**	553,173
Financial assets at amortised cost				
Treasury bills	**208,367**	249,537	**–**	–
Government stock	**688,820**	624,715	**–**	–
Preference shares	**–**	–	**272,782**	202,060
	897,187	874,252	**272,782**	202,060
Less expected credit loss allowance	**(36,873)**		**(17,132)**	
Net financial assets at amortised cost	**860,314**	874,252	**255,650**	202,060
Current	**300,431**	360,568	**–**	–
Non-current	**559,883**	513,684	**255,650**	202,060
	860,314	874,252	**255,650**	202,060
Movement in impairment on financial assets at amortised cost is as follows for the group:				
IFRS 9 initial adoption	**19,696**	–	**1,411**	–
Restated opening balance	**19,696**	–	**1,411**	–
Impairment charge for the year	**17,177**	–	**15,721**	–
Closing balance	**36,873**	–	**17,132**	–

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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 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.

Treasury bills with a nominal value of N$230 million (2018: 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 (2018: NIL) at the Bank of Namibia. Bank of Botswana certificates with a nominal value of N$138 million (2018: 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 (2018: nil).

Refer to note 3.5 for fair value methodology used.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Company	
	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
Debt instruments				
Treasury bills	3,494,404	–	–	–
Government stock	728,510	–	–	–
Tradable instruments	476,153	–	476,153	–
Corporate bonds	40,498	–	–	–
Equity instruments				
Investment securities – listed[1, 2]	1,768	134,028	–	–
Investment securities – unlisted	1,392	–	–	–
	4,742,725	134,028	476,153	–
Current	4,242,491	134,028	476,153	–
Non-current	500,234	–	–	–
	4,742,725	134,028	476,153	–

Refer to note 3.5 for fair value methodology used. All debt instruments are unlisted.

The following represents the amortised cost of instruments where this differs from the fair value:

Treasury bills	3,492,915	–	–	–
Government stock	719,123	–	–	–

Refer to note 3.5 for fair value methodology used.

[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 nil shares in Visa Inc (2018: 18,182). The election was made to recognise the equity instruments at fair value through other comprehensive income.*

[2] *During the period under review, the remaining 18,182 (2018: 12,122) shares of an initially held 30,304 shares in Visa Inc were sold. The realised fair value gains of N$136.4m were directly taken from Fair value reserve to Retained earnings in the statement of changes in equity. The investment was disposed of as it did not form part of the core business of the group.*

16. DUE FROM OTHER BANKS

Placement with other banks	1,724,043	1,773,529

Placements with other banks are callable on demand and are therefore current assets.

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for the year ended 30 June 2019

17. LOANS AND ADVANCES TO CUSTOMERS

	Group 2019 N$'000	Group 2018 N$'000
Overdrafts	5,576,472	5,462,041
Term loans	12,001,762	10,083,575
Mortgages	17,748,863	17,248,618
– Residential mortgages	10,626,992	10,112,577
– Commercial mortgages	7,121,871	7,136,041
Instalment finance	3,209,275	3,361,848
Preference shares	409,743	444,903
Gross loans and advances	38,946,115	36,600,985
Less impairment		
Specific impairment	–	(258,411)
Portfolio impairment	–	(108,156)
Stage 1	(152,536)	–
Stage 2	(102,256)	–
Stage 3	(508,727)	–
	38,182,596	36,234,418
Effective interest rate impact per IFRS 9	(133,013)	
	38,049,583	
Value of loans and advances as per IFRS 9		
Gross loans and advances	38,946,115	–
Effective interest rate impact per IFRS 9	(133,013)	
Interest in suspense (contractual interest suspended on non-performing loans)	346,836	
Interest capitalised on stage 3 impaired loans and advances	114,692	–
Value of loans and advances	39,274,630	–
Value of impairments as per IFRS 9		
Gross impairments	(763,519)	–
Interest in suspense (contractual interest suspended on non-performing loans)	(346,836)	
Additional impairment on stage 3 capitalised interest	(114,692)	
Value of impairments	(1,225,047)	–
Loans and advances	38,049,583	–

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

17. LOANS AND ADVANCES TO CUSTOMERS (continued)

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 2019					
Balance at the beginning 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
IFRS 9 initial adoption	102,486	19,422	79,593	213,049	414,550
IFRS 9 adjusted balance at the beginning of the year	177,223	182,495	152,269	269,130	781,117
– Stage 1	38,684	34,454	16,514	64,341	153,993
– Stage 2	31,072	21,364	18,267	72,423	143,126
– Stage 3	107,467	126,677	117,488	132,366	483,998
Loan impairments	25,301	73,529	12,974	(2,946)	108,858
Foreign exchange differences	–	(3,627)	–	(49,836)	(53,463)
Amounts written off during the year as uncollectible	(4,886)	(42,630)	(402)	(25,075)	(72,993)
Balance at the end of the year	197,638	209,767	164,841	191,273	763,519
– Stage 1	34,079	40,279	13,177	65,001	152,536
– Stage 2	38,902	23,474	14,925	24,955	102,256
– Stage 3	124,657	146,014	136,739	101,317	508,727

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

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 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 uncollectible	(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

	Group			
	2019 N$'000	%	2018 N$'000	%
Total impairment by geographical area				
Namibia	**505,328**		230,314	
Botswana	**159,268**		121,011	
Zambia	**98,923**		15,242	
	763,519		366,567	
Maturity analysis of loans and advances to customers for the group were as follows:				
Repayable within 1 month	**5,704,097**	**14.6**	4,946,417	13.5
Repayable after 1 month but within 3 months	**125,148**	**0.3**	620,218	1.7
Repayable after 3 months but within 6 months	**173,879**	**0.5**	763,862	2.1
Repayable after 6 months but within 12 months	**329,663**	**0.9**	863,927	2.4
Repayable after 12 months	**32,613,328**	**83.7**	29,406,561	80.3
	38,946,115	**100.0**	36,600,985	100.0

17. LOANS AND ADVANCES TO CUSTOMERS (continued)

	Group	
	2019 N$'000	2018 N$'000
The loans and advances to customers include instalment finance receivables which are analysed as follows:		
Repayable within 1 year	**157,581**	193,954
Repayable after 1 year but within 5 years	**3,551,382**	3,825,092
Repayable after 5 years	**20,517**	14,380
Gross investment in instalment finances	**3,729,480**	4,033,426
Unearned future finance income on instalment finances	**(520,205)**	(746,656)
Net investment in instalment finances	**3,209,275**	3,286,770

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$46.6 million (2018: N$43.5 million) relating to the above-mentioned scheme.

The movements on these staff loans were as follows:

	Group	
	2019 N$'000	2018 N$'000
Opening balance	**43,496**	39,942
New loans advanced during the year	**20,832**	22,382
Loans redeemed during the year	**(16,076)**	(18,736)
Staff costs (adjustment to fair value)	**(6,657)**	(5,473)
Effective interest charged	**5,030**	5,381
Closing balance	**46,625**	43,496

18. OTHER ASSETS

	Group		Company	
	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
Insurance fund asset	**51,125**	53,742	**–**	–
Accounts receivable	**187,852**	333,801	**77,312**	75,663
Dividends receivable	**–**	5,300	**–**	47,309
Clearing, settlement and internal accounts	**224,531**	96,483	**–**	–
Prepayments	**42,654**	73,265	**104,200**	253
Other taxes	**1,085**	1,841	**–**	221
Inventory	**46,816**	48,038	**–**	–
Derivative financial instruments – interest rate swaps	**357**	–	**–**	–
	554,420	612,470	**181,512**	123,446
Less expected credit loss allowance	**–**	**–**	**(16,303)**	
Net other assets	**554,420**	**612,470**	**165,209**	**123,446**
Current	**502,822**	510,690	**165,209**	123,446
Non-current	**51,598**	101,780	**–**	–
	554,420	612,470	**165,209**	123,446
Movement in impairment on other assets				
IFRS 9 initial adoption	**–**	–	**22,395**	–
Restated opening balance	**–**	–	**22,395**	–
Foreign exchange gain	**–**	–	**(6,092)**	–
Closing balance	**–**	–	**16,303**	–

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 2019 was N$260.0 million (2018: N$420.0 million).

Refer to note 3.2.6 for credit quality disclosure of financial instruments included in other assets.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

19. INVESTMENT IN SUBSIDIARIES

The following information relates to the company's financial interests in its unlisted subsidiaries:

	Principal place of business	Number of shares held '000	Issued ordinary share capital and premium N$'000	Effective holding 2019 %	Effective holding 2018 %
Subsidiaries of Capricorn Group					
Bank Windhoek Ltd	Namibia	4,920	485,000	**100**	100
Namib Bou (Pty) Ltd	Namibia	600	23,000	**100**	100
Capricorn Asset Management (Pty) Ltd	Namibia	55	1,001	**100**	100
Capricorn Unit Trust Management Company Ltd	Namibia	2,000	2,000	**100**	100
Capricorn Capital (Pty) Ltd	Namibia	4	100	**100**	100
Capricorn Investment Holdings (Botswana) Ltd	Botswana	52,598	318,858	**84.3**	84.3
Cavmont Capital Holdings Zambia Plc	Zambia	111,625	207,340	**97.9**	97.9
Mukumbi Investments (Pty) Ltd	Zambia	5	33	**100**	100
Entrepo Holdings (Pty) Ltd	Namibia	15	130,000	**55.5**	55.5
Capricorn Mobile (Pty) Ltd	Namibia	0	0	**100.0**	100.0
Capricorn Investment Group (Pty) Ltd	South Africa	0	0	**100.0**	100.0
Subsidiaries of Bank Windhoek Ltd					
Bank Windhoek Nominees (Pty) Ltd	Namibia	0.1	0.1	**100**	100
BW Finance (Pty) Ltd	Namibia	0.1	0.1	**100**	100
Bank Windhoek Properties (Pty) Ltd	Namibia	1	1	**100**	100
Subsidiaries of Capricorn Investment Holdings (Botswana) Ltd					
Bank Gaborone Ltd (BG)	Botswana	220,000	297,309	**100**	100
Penrich Employee Benefits (Pty) Ltd	Botswana	1	8,124	**100**	100
Capricorn Asset Management (Botswana) (Pty) Ltd	Botswana	1	2,579	**100**	100
Peo Micro (Pty) Ltd	Botswana	30	30	**100**	100
Subsidiaries of Cavmont Capital Holdings Zambia Plc					
Cavmont Bank Ltd	Zambia	19,075	26,445	**100**	100
Subsidiaries of Entrepo Holdings (Pty) Ltd					
Entrepo Life Ltd	Namibia	4	4,200	**100**	100
Entrepo Finance (Pty) Ltd	Namibia	4	4	**100**	100

19. INVESTMENT IN SUBSIDIARIES (continued)

	Aggregate income of subsidiaries (after tax)		Total investment	
	2019 N$'000	**2018 N$'000**	**2019 N$'000**	**2018 N$'000**
Financial details of subsidiaries				
Subsidiaries of Capricorn Group				
Bank Windhoek Ltd (consolidated)	**797,714**	796,766	**520,440**	520,440
Namib Bou (Pty) Ltd	**1,853**	2,282	**23,000**	23,000
Capricorn Asset Management (Pty) Ltd	**25,753**	23,154	**127,954**	127,954
Capricorn Unit Trust Management Company Ltd	**23,042**	19,668	**64,750**	64,750
Capricorn Capital (Pty) Ltd	**(10,293)**	(5,779)	**163**	163
Capricorn Investment Holdings (Botswana) Ltd	**59,655**	46,551	**436,361**	436,361
Cavmont Capital Holdings Zambia Plc	**(19,853)**	(52,130)	**–**	57,170
Mukumbi Investments (Pty) Ltd	**25**	(55)	**–**	55,182
Entrepo Holdings Ltd	**171,823**	–	**238,680**	238,680
Capricorn Mobile (Pty) Ltd	**(914)**	–	**0.1**	–
Capricorn Investment Group (Pty) Ltd	**(299)**	–	**0.1**	–
	1,048,506	830,457	**1,411,348**	1,523,700
Non-current			**1,411,348**	1,523,700

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 BWP1.323 (2018: BWP1.293) and ZMW1.234 (2018: 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)

for the year ended 30 June 2019

20. INVESTMENT IN ASSOCIATES

Set out below are the associates of the group as at 30 June 2019. 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$'000	Effective holding 2019 %	Effective holding 2018 %	Shares at cost 2019 N$'000	Shares at cost 2018 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	**8,615**	**28,711**	**30.0**	18.3	**88,737**	34,461
					198,932	144,656

20.1 Santam Namibia Ltd

The company holds a 28 % interest in Santam Namibia Ltd, a short-term insurance company.

	Group 2019 N$'000	Group 2018 N$'000	Company 2019 N$'000	Company 2018 N$'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	**20,270**	41,134		
– Profit before tax	**29,474**	59,108		
– Current and deferred tax	**(9,204)**	(17,974)		
Dividends paid	**(15,949)**	(38,438)		
Post-acquisition retained income at the beginning of the year	**66,327**	63,631		
	133,553	129,232	**62,905**	62,905
Directors' valuation	**217,043**	310,468	**217,043**	310,468

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 basis of valuation.

20. INVESTMENT IN ASSOCIATES (continued)

20.1 Santam Namibia Ltd (continued)

	Group 2019 N$'000	Group 2018 N$'000	Company 2019 N$'000	Company 2018 N$'000
Summarised financial information (unaudited)				
Revenue (net earned premium)	**899,478**	858,672		
Profit after tax	**72,391**	147,147		
Total comprehensive income	**72,391**	147,147		
Non-current assets	**546,511**	468,351		
Technical assets	**324,055**	336,361		
Current assets	**229,571**	237,532		
Technical liabilities	**(481,820)**	(488,073)		
Current liabilities	**(224,135)**	(175,447)		
Net asset value	**394,182**	378,724		
Interest in associate (28 %)	**110,193**	105,872		
Goodwill on acquisition	**23,360**	23,360		
Carrying value of investment in associate	**133,553**	129,232		

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 2019 N$'000	Group 2018 N$'000	Company 2019 N$'000	Company 2018 N$'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	**49,621**	41,808		
– Profit before tax	**52,049**	45,026		
– Current and deferred tax	**(2,428)**	(3,218)		
Dividends paid	**(44,779)**	(42,530)		
Post-acquisition retained income at the beginning of the year	**71,234**	71,956		
	123,366	118,524	**47,290**	47,290
Directors' valuation	**510,458**	455,354	**510,458**	455,354

20. **INVESTMENT IN ASSOCIATES (continued)**

20.2 **Sanlam Namibia Holdings (Pty) Ltd (continued)**

Technique used for directors' valuation:

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.

	Group		Company	
	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
Summarised financial information (unaudited)				
Revenue (net insurance income)	**1,032,937**	995,434		
Profit after tax	**168,435**	141,917		
Total comprehensive income	**168,435**	141,917		
Non-current assets	**5,010,795**	4,470,969		
Current assets	**621,131**	338,844		
Non-current liabilities	**(4,744,744)**	(3,967,205)		
Current liabilities	**(531,582)**	(503,444)		
Net asset value	**355,600**	339,164		
Interest in associate (29.5 %)	**104,760**	99,918		
Goodwill on acquisition	**18,606**	18,606		
Carrying value of investment in associate	**123,366**	118,524		

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 2019 have been used for equity accounting the share of results of associates for their half year ended 30 June 2019.

20.3 **Nimbus Infrastructure Limited**

The company holds a 30 % interest in Nimbus Infrastructure Ltd, a Capital Pool Company with the objective of pursuing investments in the Information Communication and Technology Sector.

	Group 2019 N$'000	Group 2018 N$'000	Company 2019 N$'000	Company 2018 N$'000
Carrying value of investment in associate				
Investment at cost	**88,737**	34,461	**88,737**	34,461
Share of current year's retained income	**2,766**	294		
– Profit before tax	**2,766**	364		
– Current and deferred tax	**–**	(70)		
Post-acquisition retained income at the beginning of the year	**294**			
	91,797	34,755	**88,737**	34,461
Valuation	**88,737**	37,941	**88,737**	37,941

On 13 July 2018, the group acquired an additional 12 % stake in Nimbus Infrastructure Limited for a consideration of N$54.3 million. The cost of the acquisition was equal to the share of the fair value of identifiable assets and liabilities at the date of acquisition and thus no goodwill or gain-on-bargain purchase was recognised.

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20. INVESTMENT IN ASSOCIATES (continued)

20.3 Nimbus Infrastructure Limited (continued)

Technique used for directors' valuation:

Nimbus Infrastructure Ltd is listed on the Namibia Stock Exchange (NSX) and therefore has a quoted market price available for its shares.

	Group		Company	
	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
Summarised financial information (unaudited)				
Revenue	**6,998**	2,282		
Profit after tax	**9,220**	1,609		
Total comprehensive income	**9,220**	1,609		
Non-current assets	**199,516**	189,752		
Current assets	**106,627**	701		
Current liabilities	**(212)**	(535)		
Net asset value	**305,931**	189,918		
Interest in associate (30 %) (2018: 18.3 %)	**91,797**	34,755		
Carrying value of investment in associate	**91,797**	34,755		
Total investment in associates (non-current)	**348,716**	282,511	**198,932**	144,656

Refer to note 40 for related-party transactions and balances with associates.

21. INTEREST IN JOINT ARRANGEMENT

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 are equity accounted. Management accounts as at 30 June 2019 have been used for equity accounting the share of results for the year ended 30 June 2019. The value of the group's share in assets, liabilities, income and expenditure is not significant to the group as a whole.

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 '000	Issued ordinary share capital and premium N$'000	Effective holding 2019 and 2018 %	Shares at cost 2019 N$'000	Shares at cost 2018 N$'000
Namclear (Pty) Ltd	4	4,616	**25**	**1,154**	1,154

	Group 2019 N$'000	Group 2018 N$'000
Opening balance	**7,341**	6,193
The group's share of the profit in the joint venture	**3,675**	1,148
Closing balance	**11,016**	7,341
Non-current	**11,016**	7,341
Directors' valuation	**11,016**	7,341

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	**14,700**	4,592
Total comprehensive income	**14,700**	4,592
Non-current assets	**52,656**	45,115
Current assets	**49,983**	28,790
Non-current liabilities	**(40,709)**	(35,075)
Current liabilities	**(17,866)**	(9,466)
Net asset value	**44,064**	29,364
Interest in joint arrangement (25%) (2018: 25%)	**11,016**	7,341
Carrying value of joint arrangement	**11,016**	7,341

Refer to note 40 for related-party transactions and balances with joint ventures.

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22. INTANGIBLE ASSETS

Group	Goodwill[1] N$'000	Purchased software N$'000	Intangible assets in development N$'000	Internally generated software N$'000	Total N$'000
30 June 2019					
Cost					
Cost at 1 July 2018	**71,068**	**113,801**	**28,325**	**247,631**	**460,825**
Transfers	**–**	**–**	**(63,118)**	**31,054**	**(32,064)**
Additions	**–**	**322**	**60,582**	**3,425**	**64,329**
Exchange differences	**–**	**(4,892)**	**260**	**(148)**	**(4,780)**
Cost at 30 June 2019	**71,068**	**109,231**	**26,049**	**281,962**	**488,310**
Amortisation					
Amortisation at 1 July 2018	**–**	**(94,538)**	**(6,760)**	**(75,594)**	**(176,892)**
Charge for the year	**–**	**(3,103)**	**–**	**(32,327)**	**(35,430)**
Exchange differences	**–**	**224**	**(115)**	**(258)**	**(149)**
Amortisation at 30 June 2019	**–**	**(97,417)**	**(6,875)**	**(108,179)**	**(212,471)**
Net book value at 30 June 2019	**71,068**	**11,814**	**19,174**	**173,783**	**275,839**
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

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 2019 nor 30 June 2018.

[1] *Goodwill is tested for impairment on annual basis as per the requirements of IAS 36. Goodwill is allocated to each subsidiary based on its initial acquisition. Each subsidiary is deemed to be an individual cash-generating unit (CGU). The recoverable amount of the CGUs was determined using fair value calculations of the individual companies that gave rise to the goodwill asset.*

No instance was detected which indicated the impairment of the goodwill.

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for the year ended 30 June 2019

23. PROPERTY 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 2019					
Cost					
Cost at 1 July 2018	**79,932**	**236,851**	**30,744**	**285,237**	**632,764**
Additions	**–**	**62,009**	**5,983**	**8,242**	**76,234**
Transfers	**–**	**8,057**	**–**	**24,007**	**32,064**
Exchange differences	**1,233**	**5,786**	**956**	**4,640**	**12,615**
Disposals	**–**	**(1,326)**	**(5,930)**	**(9,930)**	**(17,186)**
Cost at 30 June 2019	**81,165**	**311,377**	**31,753**	**312,196**	**736,491**
Depreciation					
Accumulated depreciation at 1 July 2018	**(30,136)**	**(154,543)**	**(19,565)**	**(190,074)**	**(394,318)**
Charge for the year	**(1,875)**	**(39,825)**	**(2,149)**	**(23,064)**	**(66,913)**
Exchange differences	**(475)**	**(2,087)**	**(826)**	**(3,951)**	**(7,339)**
Depreciation on disposals	**–**	**1,322**	**5,535**	**9,666**	**16,523**
Accumulated depreciation at 30 June 2019	**(32,486)**	**(195,133)**	**(17,005)**	**(207,423)**	**(452,047)**
Net book value at 30 June 2019	**48,679**	**116,244**	**14,748**	**104,773**	**284,444**
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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

23. PROPERTY 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 2019 nor 30 June 2018. All property, plant and equipment are classified as non-current assets.

24. DUE TO OTHER BANKS

	Group	
	2019 N$'000	2018 N$'000
Current accounts	**72,756**	63,037
Borrowings from other banks – in the normal course of business	**172,947**	189,646
	245,703	252,683
Current	**245,703**	252,683

Due to other banks are unsecured with no fixed repayment terms and bears interest at market-related interest rates.

25. OTHER BORROWINGS

	Group		Company	
	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
Balance as at 1 July	**1,313,433**	1,165,064	**95,923**	–
Additions	**451,360**	309,651	**396,360**	90,651
Redemptions	**(770,874)**	(169,726)	**(353,601)**	–
Accrued interest	**140,202**	127,473	**30,227**	2,454
Coupon repayments	**(140,793)**	(124,301)	**(30,227)**	(2,454)
Foreign exchange movement	**3,044**	5,272	**3,044**	5,272
Balance as at 30 June	**996,372**	1,313,433	**141,726**	95,923
Current	**360,993**	263,196	**141,726**	95,923
Non-current	**635,379**	1,050,237	**–**	–
	996,372	1,313,433	**141,726**	95,923

Other borrowings consist of N$920 million long-term funding with IFC (International Finance Corporation), of which N$346 million has been repaid to date, as well as a long-term loan from AFD (Agence Française de Développement) of N$219 million. The balance is further made up of a Bank One loan of N$142 million and a loan from the Caliber Capital Trust of N$55 million. N$250 million long-term funding from DEG (Deutsche Investitions- und Entwicklungsgesellschaft) has been repaid in full in December 2018.

25. OTHER BORROWINGS (continued)

The IFC loan is repayable semi-annually over a seven-year term with quarterly interest repayments. The first capital repayment was made in December 2017. Interest on the IFC loans is charged at three-month JIBAR plus an average spread of 2.95 %.

The AFD loan is repayable semi-annually over a seven-year term with quarterly interest repayments. The first capital repayment is due in December 2020. Interest on the AFD loan is charged at three-month JIBAR plus a spread of 1.131 %.

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 2.3 %.

The Caliber Capital Trust loan bears interest at Namibian prime plus 3.5 % and is repayable at the end of the loan term.

The group complied with all debt covenant requirements relating to these loans in the current financial year.

26. DEBT SECURITIES IN ISSUE

	Group		Company	
	2019 N$'000	**2018 N$'000**	**2019 N$'000**	**2018 N$'000**
Balance as at 1 July	**4,777,074**	4,105,577	**1,038,272**	932,469
Redemptions	**(993,816)**	(1,341,584)	**(100,000)**	(930,000)
Additions	**1,826,392**	1,993,885	**820,392**	1,030,000
Effective interest	**437,055**	375,957	**96,531**	76,019
Coupon payments	**(379,811)**	(356,761)	**(86,450)**	(70,216)
Forex gain	**4,080**	–	**984**	–
Balance as at 30 June	**5,670,974**	4,777,074	**1,769,729**	1,038,272
Current	**721,551**	1,497,623	**24,729**	438,272
Non-current	**4,949,423**	3,279,451	**1,745,000**	600,000
	5,670,974	4,777,074	**1,769,729**	1,038,272

26. DEBT SECURITIES IN ISSUE (continued)

				Group	
Debt instruments	**Interest rate**	**Maturity date**	**Notes**	**2019 N$'000**	**2018 N$'000**
Five-year callable bonds					
BW25	9.75 %	18-Aug-25	26.1	**187,533**	187,533
Bonds issued by Bank Gaborone	3 mth BoBC rate + 2.1 %	31-Oct-21	26.1	**66,681**	65,625
				254,214	253,158
Senior debt – unsecured					
BWFj18 fixed rate note	9.55 %	25-Oct-18	26.2	**–**	105,819
BWZj18 floating rate note	3 mth JIBAR + 180bps	19-Nov-18	26.2		606,150
BWFd19 fixed rate note	9.43 %	25-Apr-19	26.2	**–**	101,725
BWFh19 fixed rate note	8.86 %	22-Aug-19	26.2	**113,473**	113,473
BWJj19 floating rate note	3 mth JIBAR + 175bps	25-Oct-19	26.2	**121,949**	121,850
BWZj19 floating rate note	3 mth JIBAR + 205bps	10-Nov-19	26.2	**162,099**	162,040
BWZ20A floating rate note	3 mth JIBAR + 215bps	27-Mar-20	26.2	**299,300**	299,297
BWi20 floating rate note	3mth JIBAR + 180bps	18-Sep-20	26.2	**265,857**	265,863
BWJL21G Floating rate note	3 mth JIBAR + 150bps	6-Dec-21	26.2	**66,387**	–
BWRj21 fixed rate note	7.75 %	15-Oct-21	26.2	**58,285**	57,112
BWZj21 floating rate note	3 mth JIBAR + 230bps	10-Nov-21	26.2	**60,808**	60,786
BWJd21 floating rate note	3mth JIBAR + 185bps	20-Apr-21	26.2	**132,460**	132,477
BWZ21B floating rate note	3mth JIBAR + 205bps	27-Mar-21	26.2	**300,299**	300,296
BWFh22 fixed rate note	9.50 %	18-Aug-22	26.2	**285,545**	155,254
BWJh22 floating rate note	3mth JIBAR + 195bps	19-May-27	26.2	**136,672**	60,544
BWFK22 fixed rate note	9.98 %	21-Nov-22	26.2	**247,724**	–
BWJK22 floating rate note	3 mth JIBAR + 187 bps	21-Nov-22	26.2	**156,572**	–
BWZJ23 floating rate note	3 mth JIBAR + 190 bps	19-Nov-22	26.2	**343,628**	–
BWJ1e27 floating rate note	3 mth JIBAR + 215bps	19-May-27	26.2	**505,483**	505,331
BWJ2e27 floating rate note	3 mth JIBAR	19-May-27	26.2	**302,530**	302,440
CGL001 floating rate note	Botswana bank rate + 160bps	8-Apr-24	26.2	**174,035**	–
Senior debt issued by Bank Gaborone	7.3 % – 7.5 %	June 2028; June 2027	26.2	**87,960**	135,187
				3,821,066	3,485,644
Preference shares (floating rate note)					
2,500 Preference shares – Santam Namibia Ltd	64.5 % of prime	1-Dec-21	26.3	**25,139**	25,144
10,000 Preference Shares – Capricorn Corporate Fund	3mth JIBAR + 185 bps	15-Feb-21	26.3	**–**	101,126
40,000 Preference Shares – Capricorn Investment Holdings Limited	3mth JIBAR	23-Mar-27	26.3	**404,785**	404,613
35,000 Preference Shares – First National Bank of Namibia	72.1 % of Namibian prime	15-Mar-24	26.3	**354,412**	–
30,000 Preference Shares – First National Bank of Namibia	71.4 % of Namibian prime	15-Mar-24	26.3	**303,759**	–
				1,088,095	530,883

26. DEBT SECURITIES IN ISSUE (continued)

Debt instruments	Interest rate	Maturity date	Notes	Group 2019 N$'000	Group 2018 N$'000
Debentures					
Various funds administered by Capricorn Asset Management (Pty) Ltd	3 mth JIBAR + 195bps	30-Apr-20	26.4	**406,088**	405,843
Capricorn Investment Holdings Ltd	3 mth JIBAR + 235bps	31-Dec-27	26.4	**101,511**	101,546
				507,599	507,389
Total debt securities in issue at the end of the year				**5,670,974**	4,777,074
Listed debt securities				**3,920,561**	3,537,990
Unlisted debt securities				**1,750,413**	1,239,084
				5,670,974	4,777,074

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. BW 25 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 bear 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 mature on 31 October 2021. Interest is paid quarterly in arrears. The debt is guaranteed by the shareholder of reference, Capricorn Investment Holdings Limited.

26.2 Senior debt – unsecured

New debt securities issued in the current year include BWJL21G, BWFK22, BWJK22, BWZJ23 and CGL001.

Interest on CGL001, BWZj18, BWJj19, BWZj19, BWZ20A, BWJi20, BWJl21G, BWZj21, BWJd21, BWZ21B, BWJH22, BWJK22, BWZJ23, 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 BWFh19 is paid semi-annually on 22 February and 22 August. Interest on BWRj21 is paid semi-annually on 15 April and 15 October, while interest on BWFk22 is paid semi-annually on 21 May and 21 November.

The instruments mentioned above are under Bank Windhoek's Medium Term Note Programme, a programme registered with the Johannesburg and Namibian Stock Exchanges.

CGL001 mentioned above is under the Capricorn Group Medium Term Note Programme, a programme registered with the Johannesburg, Botswana and Namibian Stock Exchanges. Interest is paid quarterly on 8 January, 8 April, 8 July and 8 October.

26. DEBT SECURITIES IN ISSUE (continued)

26.3 Preference shares

The company issued 65,000 new preference shares on 15 March 2019. Interest is payable quarterly in arrears on the last working day of January, April, July and October.

Interest on the 40,000 preference shares issued to Capricorn Investment Holdings Ltd is payable quarterly in arrears on the last working day of January, April, July and October.

Interest on the 2,500 preference shares issued to Santam Namibia Ltd is payable quarterly in arrears on the last working date of February, May, August and November.

26.4 Debentures

Interest on the debentures 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$4.6 billion (2018: N$4.8 billion).

27. DEPOSITS

	Group	
	2019 N$'000	**2018 N$'000**
Current accounts	**6,218,646**	7,483,375
Savings accounts	**2,276,992**	2,438,471
Demand deposits	**4,571,695**	4,606,282
Term and notice deposits	**13,172,707**	12,129,974
Negotiable certificates of deposits (NCDs)	**9,035,899**	5,692,596
Other deposits	**1,708,786**	1,597,393
	36,984,725	33,948,091

	Group			
	2019		**2018**	
	N$'000	**%**	**N$'000**	**%**
Maturity analysis within the customer current, savings, deposit account portfolio for the group were as follows:				
Withdrawable on demand	**13,486,633**	**36.5**	15,233,526	44.9
Maturing within 1 month	**3,297,831**	**8.9**	4,389,108	12.9
Maturing after 1 month but within 6 months	**8,030,380**	**21.7**	8,353,506	24.6
Maturing after 6 months but within 12 months	**6,982,083**	**18.9**	4,682,389	13.8
Maturing after 12 months	**5,187,798**	**14.0**	1,289,562	3.8
	36,984,725	**100.0**	33,948,091	100.0

28. OTHER LIABILITIES

	Group		Company	
	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
Accounts payable and other accruals	**162,762**	893,722	**17,994**	201,880
Employee liabilities	**191,275**	129,267	**26,168**	15,347
– Leave pay accrual	**49,028**	46,753	**3,621**	3,305
– Provision for performance bonuses	**110,131**	65,213	**22,547**	12,042
– Provision for share-based payment liability	**10,550**	–	**–**	–
– PAYE payable	**8,833**	9,618	**–**	–
– Medical aid payable	**6,861**	6,766	**–**	–
– Pension payable	**–**	331	**–**	–
– Other	**5,872**	586	**–**	–
Other taxes	**32,628**	27,860	**485**	–
Derivative financial instruments – interest rate swaps	**5,959**	5,535	**–**	–
Policyholder liability (see Note 28.1)	**153,978**	90,597	**–**	–
Clearing, settlement and internal accounts	**58,517**	85,208	**–**	–
	605,119	1,232,189	**44,647**	217,227
Current	**451,141**	1,141,592	**44,647**	217,227
Non-current	**153,978**	90,597	**–**	–
	605,119	1,232,189	**44,647**	217,227

The provision for performance bonuses is payable in September after the financial year-end.

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 2019 was N$420.0 million (2018: N$420.0 million).

28.1 Policyholder liabilities

	Group 2019 N$'000	Group 2018 N$'000	Company 2019 N$'000	Company 2018 N$'000
The policyholder liability at year-end comprises:				
Claims IBNR liability	**8,495**	7,494	**–**	–
Unearned premium reserve	**145,483**	83,103	**–**	–
	153,978	90,597	**–**	–
Reconciliation of the policyholder liability:				
Opening balance	**90,597**	–	**–**	–
Acquisition of subsidiary	**–**	90,597		
Allocation to the IBNR liability	**1,001**	–	**–**	–
Transfer to unearned premium reserve	**62,380**	–	**–**	–
	153,978	90,597	**–**	–

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29. DEFERRED INCOME TAX

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 32 % (2018: 32 %).

The movement on the deferred income tax account is as follows:

	Group		Company	
	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
Deferred tax (asset)/liability as at 1 July	(34,293)	(24,467)	(6,245)	–
IFRS 9 first time adoption	(31,366)	–	(7,798)	–
Restated opening as at 1 July	(65,659)	(24,467)	(14,043)	–
Acquisition of subsidiaries	–	(2,233)	–	–
Charge to profit or loss (note 11)	(41,843)	(7,593)	(8,333)	(6,245)
Accelerated tax depreciation and amortisation	4,731	26,708	–	–
Loans and receivables	11,368	(27,262)	–	–
Government stock and other securities	14,099	(2,094)	–	–
Prepaid expenses	4,938	(2,329)	–	(6,245)
Accruals	(3,129)	15,146	(3,870)	–
Loan loss impairment	(82,750)	9,858	(2,902)	–
Change in the tax rate	108	–	–	–
Assessed loss	11,123	(10,462)	(2,340)	–
Other	(2,331)	(17,158)	779	–
Deferred tax asset as at 30 June	(107,502)	(34,293)	(22,376)	(6,245)
Deferred income tax assets and liabilities are attributable to the following items:				
Deferred income tax liability				
Accelerated tax depreciation and amortisation	89,215	84,484	–	–
Government stock and other securities	17,516	3,417	–	–
Prepaid expenses	11,266	6,328	–	–
Change in the tax rate	108	–	–	–
	118,105	94,229	–	–
Deferred income tax asset				
Accruals	25,778	22,649	8,781	4,911
Loan loss impairment	133,900	19,785	10,700	–
Assessed loss	27,430	38,553	2,895	555
Derivative financial instruments	6,814	1,963	–	–
Unrealised foreign exchange gains or losses	14,441	17,356	–	–
Loans and receivables	15,894	27,262	–	–
Other temporary differences	1,350	954	–	779
	225,607	128,522	22,376	6,245
Net deferred income tax asset	(107,502)	(34,293)	(22,376)	(6,245)

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	
	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
Deferred tax liability				
Current	**28,890**	17,139	**–**	–
Non-current	**89,215**	77,090	**–**	–
Total	**118,105**	94,229	**–**	–
Deferred tax asset				
Current	**141,085**	105,645	**22,376**	6,245
Non-current	**84,522**	22,877	**–**	–
Total	**225,607**	128,522	**22,376**	6,245

30. POST-EMPLOYMENT BENEFITS

30.1 Severance pay liability

A valuation was performed for 30 June 2019 by an independent actuary on the group's liability with respect to severance pay. The benefit is not funded.

	Group	
	2019 N$'000	2018 N$'000
The amount recognised in the consolidated statement of financial position is determined as follows:		
Present value of unfunded obligation (non-current)	**12,232**	11,440
The movement in the severance pay obligation over the year is as follows:		
As at 1 July	**11,440**	10,191
Current service costs	**1,302**	1,196
Interest cost	**965**	945
Past service cost	**–**	551
Benefits paid	**(1,475)**	(112)
Actuarial gain	**–**	(1,331)
As at 30 June	**12,232**	11,440
The amounts recognised in the consolidated statement of comprehensive income are as follows:		
Current service costs	**1,302**	1,196
Past service cost	**–**	551
Interest cost	**965**	945
	2,267	2,692

The principal actuarial assumptions used were as follows:	%	%
Discount rate	**8.5**	8.5
Inflation rate	**5.4**	6.4
Salary increases	**6.4**	6.4
The following sensitivity of the overall liability to changes in principal assumption is:		
Salary increase 1 % lower per annum	**565**	565
Salary increase 1 % higher per annum	**636**	636
Inflation increase 1 % lower per annum	**477**	477
Inflation increase 1 % higher per annum	**537**	537
Discount increase 1 % lower per annum	**750**	750
Discount increase 1 % higher per annum	**845**	845

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 2018 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	
	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'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
35,000 Class A preference shares of 1 cent each	**0.35**	–	**0.35**	–
30,000 Class B preference shares of 1 cent each	**0.30**	–	**0.30**	–
Issued ordinary share capital				
Balance as at 1 July	**12,980**	12,922	**12,980**	12,922
Shares issued during the year	**–**	58	**–**	58
Balance as at 30 June	**12,980**	12,980	**12,980**	12,980
Share premium				
Balance as at 1 July	**765,566**	724,116	**765,566**	724,116
Shares issued during the year	**–**	41,450	**–**	41,450
Balance at 30 June	**765,566**	765,566	**765,566**	765,566
Less: Treasury shares	**(58,244)**	(54,039)	**(13,039)**	(8,613)
Total ordinary share capital and premium	**720,302**	724,507	**765,507**	769,933
Issued number of ordinary shares reconciliation ('000):				
Issued number of shares at the beginning of the year	**519,184**	516,878	**519,184**	516,878
Shares issued during the year	**–**	2,306	**–**	2,306
Issued number of shares at the end of the year	**519,184**	519,184	**519,184**	519,184
Less: Treasury shares	**(7,068)**	(6,688)	**(951)**	(716)
Total number of ordinary shares issued at year-end	**512,116**	512,496	**518,233**	518,468

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for the year ended 30 June 2019

31. SHARE CAPITAL AND PREMIUM (continued)

Issued preference share capital

The company issued 35,000 Class A and 30,000 Class B preference shares on 15 March 2019. Interest is payable quarterly in arrears at the end of January, April, July and October.

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 29 October 2019, 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 (2018: 519,184,399). All issued shares are fully paid up.

32. NET ASSET VALUE PER SHARE

	Group	
	2019	**2018**
Net asset value per ordinary share (cents)		
Net assets (excluding NCI) (N$'000)	**5,815,396**	5,614,691
Weighted average number of ordinary shares in issue during the year ('000)	**512,116**	510,766
Net asset value per share (cents)	**1,136**	1,099

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$11.8 million in 2019 (2018: N$8.9 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 of 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.

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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 2019						
Opening balance	477	552	130	36	131	1,326
Granted	210	240	95	–	62	607
Vested	(62)	(75)	(51)	(36)	(47)	(271)
Forfeitures	(40)	(50)	–	–	–	(90)
Closing balance	585	667	174	–	146	1,572
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

SARs issued in September 2015 vested in September 2018 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	2019	2018
September 2015	September 2018	September 2020	–	362
September 2016	September 2019	September 2021	356	356
September 2017	September 2020	September 2022	608	608
September 2018	September 2021	September 2023	608	–
			1,572	1,326
The weighted average remaining contractual life of options outstanding at the end of the year			3.2 years	3.2 years

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 2019	
Spot and strike price (N$)	16.89
Risk-free rate	8.4 %
Dividend yield	3.8 %
Volatility	30 %
Membership attrition	5 %
30 June 2018	
Spot and strike price (N$)	18.10
Risk-free rate	7.7 %
Dividend yield	3.8 %
Volatility	30 %
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 of 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:

	2019 No. of CSPs '000	**2018 No. of CSPs '000**
Opening balance	1,354	1,322
Granted	986	646
Vested	(306)	(426)
Forfeited	(308)	(188)
Closing balance	1,726	1,354

33. **SHARE-BASED PAYMENTS (continued)**

Conditional share plan (CSP) (continued)

Outstanding number of CSPs ('000) expected to vest as follows:

Grant date	Vest date	2019	2018
September 2015	September 2018	–	366
September 2016	September 2019	221	466
September 2017	September 2020	519	522
September 2018	September 2021	986	–
		1,726	1,354

The fair value of shares granted during the year was determined with reference to the listed share price at grant date of N$16.89 (2018: N$18.10) and taking into account a membership attrition of 5 % (2018: 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	
		2019 N$'000	**2018 N$'000**
34.1	**Credit risk reserve**		
	Balance at 1 July	**215,911**	197,650
	Transfer to retained earnings: Initial adoption of IFRS 9	**(194,536)**	–
	Adjusted balance at 1 July	**21,375**	197,650
	Transfer from retained earnings	**13,454**	18,261
	Balance as at 30 June	**34,829**	215,911
	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	**53,742**	50,536
	Transfer from retained earnings	**(2,617)**	3,206
	Balance as at 30 June	**51,125**	53,742
	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	**85,954**	269,653

35. DISTRIBUTABLE RESERVES

		Group 2019 N$'000	Group 2018 N$'000
35.1	**Fair value reserve**		
	Balance as at 1 July	**129,811**	145,165
	Change in value of financial assets at FVOCI/Revaluation of available-for-sale equity instruments	**7,263**	44,026
	Reclassification to retained earnings/profit or loss	**(136,379)**	(59,380)
	Balance as at 30 June	**695**	129,811
35.2	**General banking reserve**		
	Balance as at 1 July	**3,814,879**	3,354,609
	Transfer from retained earnings	**28,918**	460,270
	Balance as at 30 June	**3,843,797**	3,814,879
	The general banking reserve is maintained to fund future expansion.		
35.3	**Foreign currency translation reserve**		
	Balance as at 1 July	**4,536**	(873)
	Revaluation for the year	**1,339**	7,779
	Change in shareholding	**–**	(2,268)
	Non-controlling interest	**(875)**	(102)
	Balance as at 30 June	**5,000**	4,536

		Group 2019 N$'000	Group 2018 N$'000	Company 2019 N$'000	Company 2018 N$'000
35.4	**Retained earnings**				
	Balance as at 1 July	**654,458**	608,336	**526,966**	485,318
	Initial adoption – IFRS 9	**(235,947)**	–	**(16,572)**	–
	Restated balance at the beginning of the reporting period	**418,511**	608,336	**510,394**	485,318
	Profit for the year	**929,889**	922,556	**688,958**	393,125
	Transfer to reserves	**(39,755)**	(481,737)	**–**	–
	Transfer from reserves – Reclassifications to retained earnings	**136,379**	–	**–**	–
	Profit on sale of treasury shares	**(1,042)**	2,690	**–**	–
	Dividends paid	**(307,555)**	(346,744)	**(311,511)**	(351,477)
	Change in ownership interest in subsidiary	**–**	(50,643)	**–**	–
	Balance as at 30 June	**1,136,427**	654,458	**887,841**	526,966

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35. DISTRIBUTABLE RESERVES (continued)

		Group		Company	
		2019 N$'000	**2018 N$'000**	**2019 N$'000**	**2018 N$'000**
35.5	**Share-based compensation reserve**				
	Balance as at 1 July	**16,847**	16,294	**10,640**	10,293
	Share-based payment charges recognised in equity	**11,802**	8,921	**5,081**	2,350
	Vesting of shares	**(5,428)**	(8,368)	**(799)**	(2,003)
	Balance as at 30 June	**23,221**	16,847	**14,922**	10,640

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 2019 N$'000	Group 2018 N$'000	Company 2019 N$'000	Company 2018 N$'000
Total distributable reserves	**5,009,140**	4,620,531	**902,763**	537,606

36. DIVIDENDS PER SHARE

Normal dividends amounting to N$311.5 million (2018: 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 2019 N$'000	Group 2018 N$'000	Company 2019 N$'000	Company 2018 N$'000
Declared during the financial year				
Interim dividend per share (cents)			**30**	30
Declared after the financial year				
Final dividend per share (cents)*			**36**	30
Total dividend per share (cents)			**66**	60
Dividends declared during the year	**324,957**	348,992	**311,511**	351,477
Dividends paid during the year	**(324,957)**	(348,992)	**(311,511)**	(351,477)
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.*

37. STATEMENT OF CASH FLOWS DISCLOSURE INFORMATION

		Group		Company	
		2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
37.1	**Receipts from customers**				
	Interest receipts	4,345,343	4,199,223	–	–
	Commission and fee receipts	959,965	885,446	–	–
	Other income received	466,273	409,454	59,882	47,057
	Gross written premiums	192,526	–	–	–
		5,964,107	5,494,123	59,882	47,057
37.2	**Payments to customers, suppliers and employees**				
	Interest payments	1,957,230	1,875,809	–	–
	Cash payments to employees and suppliers	1,926,466	1,684,670	119,979	93,094
	Gross insurance contract claims	25,540	–	–	–
	Other borrowings coupon payments	140,793	124,301	30,227	2,454
	Debt securities coupon payments	379,811	356,761	86,450	70,216
		4,429,840	4,041,541	236,656	165,764
37.3	**Cash generated from/(utilised in) operations**				
	Profit before income tax	1,402,104	1,252,501	680,625	386,880
	Dividends received	(30,236)	(12,201)	(941,802)	(444,919)
	Other borrowings coupon payments	(140,793)	(124,301)	(30,227)	(2,454)
	Debt securities coupon payments	(379,811)	(356,761)	(86,450)	(70,216)
	Adjusted for non-cash items:				
	– Effective interest on debt securities	437,055	375,957	96,531	76,019
	– Effective interest on deposits	67,934	68,834	–	–
	– Accrued interest on other borrowings	140,202	127,473	30,227	2,454
	– Interest receivable	–	–	(65,994)	(68,351)
	– Adjustment to fair value of financial instruments	(100,319)	10,767	(8,340)	10,767
	– Amortisation of intangible assets	35,430	49,827	–	–
	– Depreciation of property, plant and equipment	66,913	47,261	–	–
	– Share-based payment expense	11,802	8,921	5,081	2,350
	– Profit on sale of residential units	(1,822)	(5,600)	–	–
	– Gain on bargain purchase	–	(38,837)	–	–
	– Loss/(Profit) on sale of property, plant and equipment	(566)	66	–	–
	– Impairment charges on investments	–	–	112,352	–
	– Credit impairment losses	114,547	80,840	15,721	–
	– Provision for post-employment benefits	2,267	2,692	–	–
	– Share of associates' results after tax	(72,657)	(83,236)	–	–
	– Share of joint arrangements' results after tax	(3,675)	(1,148)	–	–
	– Other	(14,108)	49,527	15,502	(11,237)
		1,534,267	1,452,582	(176,774)	(118,707)
	In the statement of cash flows, proceeds from sale of property, plant and equipment comprise of:				
	Net book value (note 23)	663	2,258	–	–
	Profit on sale of property, plant and equipment	566	(66)	–	–
	Proceeds from sale of property, plant and equipment	1,229	2,192	–	–

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37. STATEMENT OF CASH FLOWS DISCLOSURE INFORMATION (continued)

		Group		Company	
		2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
37.4	**Income taxes paid**				
	Amounts receivable/(payable) as at 1 July	**62,341**	71,780	**1,558**	685
	Current tax charged to profit or loss	**(428,648)**	(325,659)	**–**	–
	Taxes not yet received	**–**	–	**1,159**	873
	Amounts (receivable)/payable as at 30 June	**(107,497)**	(62,341)	**(2,717)**	(1,558)
	Income taxes paid during the year	**(473,804)**	(316,220)	**–**	–
37.5	**Acquisition of subsidiaries**				
	Non-cash portion				
	Acquisition by means of equity	**–**	41,508	**–**	41,508
		–	41,508	**–**	41,508
	Cash portion				
	Cash consideration paid	**–**	(280,193)	**–**	(280,193)
	Subsidiary cash and cash equivalents acquired	**–**	107,427	**–**	–
	Net cash in/(outflow) on acquisition of subsidiary	**–**	(172,766)	**–**	(280,193)

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for the year ended 30 June 2019

38. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

		Group	
		2019 N$'000	2018 N$'000
38.1	**Capital commitments**		
	Authorised but not contracted for:		
	Property, plant and equipment	**81,670**	67,887
	Intangible assets	**110,975**	117,446
	Contracted for but not yet incurred:		
	For completion of residential units – Ondangwa phase 3	**1,743**	9,393
		194,388	194,726

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.

38.2	**Letters of credit**	**230,143**	315,491
38.3	**Liabilities under guarantees**	**1,280,854**	1,380,115

Guarantees mainly consist of endorsements and performance guarantees.

38.4	**Loan commitments**	**1,699,163**	1,714,759
38.5	**Operating lease commitments**		
	Office premises		
	– Not later than 1 year	**91,545**	61,962
	– Later than 1 year but not later than 5 years	**111,362**	87,165
	– Later than 5 years	**642**	–
		203,549	149,127

Notice periods on operating lease contracts vary between 1 to 6 months (2018: 1 to 6 months), operating lease contracts are not fixed and escalation clauses range between 6 % and 10 % (2018: 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 aggregate basis.

39. CASH AND CASH EQUIVALENTS

	Group		Company	
	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'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)	**865,513**	1,017,532	**663,895**	104,123
Treasury bills and government stock with a maturity of less than 90 days	**1,410,609**	1,571,198	**–**	–
Unit trusts and money market investments (note 14)	**2,037,188**	1,091,826	**428,092**	31,972
Placement with other banks (note 16)	**1,724,043**	1,773,529	**–**	–
Borrowings from other banks (note 24)	**(245,703)**	(252,683)	**–**	–
	5,791,650	5,201,402	**1,091,987**	136,095

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 43.1 % (2018: 41.0 %) owned by Capricorn Investment Holdings Ltd, which is incorporated in Namibia and 25.9 % (2018: 25.9 %) owned by Government Institutions Pension Fund, its non-listed major shareholders.

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 specific impairment has been recognised in respect of loans granted to key management personnel during the year under review (2018: nil).

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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 Banking relationship
Government Institutions Pension Fund	Major shareholder	Support services Banking relationship
Bank Windhoek Ltd	Subsidiary	Support services Banking relationship
Bank Windhoek Properties (Pty) Ltd	Subsidiary	Rental
BW Finance (Pty) Ltd	Subsidiary	Support services Banking relationship
Bank Windhoek Nominees (Pty) Ltd	Subsidiary	Custodian of third-party relationships
Capricorn Investment Holdings (Botswana) Ltd	Subsidiary	Banking relationship
Bank Gaborone Ltd	Subsidiary	Support services Banking relationship
Peo Micro (Pty) Ltd	Subsidiary	Banking relationship
Penrich Employee Benefits (Pty) Ltd	Subsidiary	Banking relationship
Capricorn Asset Management (Botswana) (Pty) Ltd	Subsidiary	Banking relationship
BG Insurance Agency (Pty) Ltd	Subsidiary	Banking relationship
Entrepo Holdings (Pty) Ltd	Subsidiary	Banking relationship Support services
Entrepo Life Ltd	Subsidiary	Banking relationship
Entrepo Finance (Pty) Ltd	Subsidiary	Banking relationship
Capricorn Asset Management (Pty) Ltd	Subsidiary	Support services Banking relationship
Capricorn Unit Trust Management Company Ltd	Subsidiary	Banking relationship
Capricorn Capital (Pty) Ltd	Subsidiary	Support services Banking relationship
Cavmont Capital Holdings Zambia Plc	Subsidiary	Support services Banking relationship
Mukumbi Investments Ltd	Subsidiary	Banking relationship
Cavmont Bank Ltd	Subsidiary	Support services Banking relationship
Namib Bou (Pty) Ltd	Subsidiary	Support services Banking relationship
Capricorn Mobile (Pty) Ltd	Subsidiary	Banking relationship
Capricorn Investment Group (Pty) Ltd	Subsidiary	Support services
Nimbus Infrastructure Ltd	Associate	Banking relationship
Paratus Telecommunications (Pty) Ltd	Other related party	Banking relationship
Santam Namibia Ltd	Associate	Dividends Banking relationship Insurance relationship
Sanlam Namibia Holdings (Pty) Ltd	Associate	Dividends Banking relationship Insurance 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 2019 N$'000	Group 2018 N$'000	Company 2019 N$'000	Company 2018 N$'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	**–**	–
	Subsidiaries	**–**	–	**17**	43,445
	Other indirect related parties	**11,590**	5,847	**11,558**	5,326
40.2	**Loans and advances to related parties**				
	Subsidiaries	**–**	–	**52,060**	54,181
	Other indirect related parties	**17,025**	13,578	**17,096**	18,617
	Key management personnel	**37,327**	35,480	**–**	–
40.3	**Cash and cash equivalents held by related parties**				
	Subsidiaries	**–**	–	**663,895**	104,119
40.4	**Preference shares advanced to related parties**				
	Subsidiaries	**–**	–	**272,782**	202,060
40.5	**Trade and other payables to related parties**				
	Major shareholders	**–**	190,710	**–**	190,710
	Subsidiaries	**–**	–	**18,521**	5,634
	Other indirect related parties	**1,418**	1,836	**–**	1,151
40.6	**Deposits from related parties**				
	Major shareholders	**250,551**	162,864	**–**	–
	Other indirect related parties	**109,523**	262,430	**–**	–
	Key management personnel	**1,207**	1,095	**–**	–
40.7	**Debt securities issued to related parties**				
	Major shareholders	**1,381,285**	1,313,929	**506,374**	506,158
	Other indirect related parties	**431,227**	532,114	**431,227**	532,114
40.8	**Expenses paid to related parties**				
	Subsidiaries	**–**	–	**1,576**	175
	Other indirect related parties	**–**	11,482	**–**	–

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40. RELATED PARTIES (continued)

		Group 2019 N$'000	Group 2018 N$'000	Company 2019 N$'000	Company 2018 N$'000
40.9	**Interest and similar expenses paid to related parties**				
	Major shareholders	**120,399**	109,221	**37,406**	68,574
	Other indirect related parties	**71,724**	22,596	**39,146**	10,883
	Key management personnel	**33**	7	**–**	–
40.10	**Income received from related-party transactions**				
	Major shareholders	**1,032**	1,267	**1,019**	1,267
	Fellow subsidiaries	**–**	–	**–**	583
	Subsidiaries	**–**	–	**45,367**	42,382
	Other indirect related parties	**20,017**	13,290	**19,698**	12,864
	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	**–**	–
	Subsidiaries	**–**	–	**37,357**	15,916
	Other indirect related parties	**21,266**	4,830	**–**	978
	Key management personnel	**24,528**	2,047	**–**	–
40.12	**Dividends received on ordinary shares from related parties**				
	Subsidiaries	**–**	–	**853,653**	347,779
	Other indirect related parties	**60,434**	92,730	**60,434**	92,730
40.13	**Compensation paid to key management**				
40.13.1	***Executive management team***				
	Salaries	**48,327**	37,692	**9,229**	5,315
	Short-term incentives	**19,545**	19,191	**3,750**	3,325
	Long-term incentives[1]	**11,127**	7,680	**6,434**	2,675
	Contribution to defined contribution medical schemes	**1,832**	1,525	**195**	228
	Contribution to defined contribution pension schemes	**3,170**	2,629	**360**	391
	Share-based payment charges	**5,938**	5,658	**2,797**	1,673
	Other allowances	**16,103**	11,901	**1,623**	3,701
		106,042	86,276	**24,388**	17,308

[1] *Expected value of the long-term incentives awards.*

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)

for the year ended 30 June 2019

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 2019			
Non-executive directors			
Black, K B	**342**	**214**	**556**
Brandt, J C	**264**	**397**	**661**
Fourie, D G	**745**	**949**	**1,694**
Gaomab II, H M	**256**	**–**	**256**
Menetté, G	**136**	**–**	**136**
Nakazibwe-Sekandi, G	**420**	**208**	**628**
Reyneke, D J	**408**	**–**	**408**
Schimming-Chase, E M	**222**	**–**	**222**
Swanepoel, J J (Chairman)	**1,800**	**2,206**	**4,006**
Total	**4,593**	**3,974**	**8,567**
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

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 2019 and 2018 financial years.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

40. RELATED PARTIES (continued)

40.13 Compensation paid to key management (continued)

40.13.3 Executive directors' emoluments

	Salary N$'000	Short-term incentives N$'000	Long-term incentives[2] N$'000	Pension and medical contributions N$'000	Other allowances and fringe benefits N$'000	Total N$'000
30 June 2019						
Executive directors						
Prinsloo, M J	**1,906**	**2,250**	**915**	**195**	**2,187**	**7,453**
Esterhuyse, J J[1]	**1,339**	**1,200**	**427**	**160**	**653**	**3,779**
	3,245	**3,450**	**1,342**	**355**	**2,840**	**11,232**

[1] *This represents the full year remuneration.*

	Salary and bonuses N$'000	Short-term incentive N$'000	Long-term incentives[2] 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	2,250	915	180	1,958	7,077
	1,774	2,250	915	180	1,958	7,077

[2] *Expected value of the long-term incentives awards.*

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

40. RELATED PARTIES (continued)

40.14 Directors' holdings in Capricorn Group shares

	2019			2018	
	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	**8,154**	**46,970**	**0.01%**	38,636	0.01 %
Esterhuyse J J[1]	**13,432**	**468,277**	**0.09%**	454,845	0.09 %
Fourie, D G	**114,300**	**150,000**	**0.03%**	35,700	0.01 %
Gaomab II, H M	**2,000**	**2,000**	**0.00%**	–	0.00 %
Nakazibwe-Sekandi, G	**(350,000)**	**1,445,784**	**0.28%**	1,795,784	0.35 %
Prinsloo, M J[1]	**48,898**	**2,314,748**	**0.45%**	2,265,850	0.44 %
Schimming-Chase, E M	**–**	**1,200**	**0.00%**	1,200	0.00 %
Indirect holding:					
Swanepoel, J J (Chairman)			**4.15%**		4.25 %
Brandt, J C			**20.62%**		21.16 %
Prinsloo, M J			**0.11%**		0.13 %

[1] *Movement due to maturing of shares under the share purchase scheme.*

All shareholdings are beneficial.

Following the expiry of the closed trading period, the indirect shareholding of Mr J C Brandt reduced from 20.62 % to 18.36 % and the indirect shareholding of Mr J J Swanepoel reduced from 4.15 % to 1.82 %. Other than that, 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 (2018: 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. As at the end of the 2019 financial year, the group was providing financial support of N$17.1 million (2018: N$18.6 million) to the Capricorn Group Employee Share Ownership Trust.

43. SEGMENT INFORMATION

The group considers its banking operations in Namibia and Botswana as major operating segments; the other major operating segment is the microlending activities in Namibia. Other components include property development, asset management, unit trust management and the Zambian banking operations. However, these components each contribute less than 10 % to the group's revenue, assets and profit for the year. Therefore, the group has no significant components other than banking and microlending in Namibia and banking in Botswana.. This is in a manner consistent with the internal reporting provided to the chief operating decision-maker, identified as the Chief Executive Officer 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 Group Chief Executive Officer 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

Microlending and related activities – Namibia

Banking operations – Botswana

Brand

Bank Windhoek Ltd (BW)

Entrepo Holdings (Pty) Ltd

Bank Gaborone Ltd (BG)

Description

(BW & BG) – Corporate and executive banking, retail banking services and specialist finance.

Entrepo – Microlending and life insurance services.

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.

Entrepo is an investment holding company, its subsidiaries are engaged in life insurance and financial services in Namibia.

43. SEGMENT INFORMATION (continued)

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 10 % or more of the entity's revenue. The group does not have customers that contribute 10 % or more to its revenue and is therefore not reliant on a single major customer.

43.2 Financial information

	Banking – Namibia		Microlending and related activities – Namibia		Banking – Botswana		Other		Group	
	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
Net interest income – external	**1,610,378**	1,513,457	**82,017**	–	**233,481**	232,036	**206,997**	73,404	**2,132,873**	1,818,897
Net interest income – internal	**(31,969)**	(3,367)	**66,829**	–	**8,631**	–	**(43,491)**	3,367	**–**	–
Impairment charges on loans and advances	**(94,726)**	(58,069)	**(15,460)**	–	**(13,512)**	(24,377)	**9,151**	1,606	**(114,547)**	(80,840)
Net interest income after loan impairment charges	**1,483,683**	1,452,021	**133,386**	–	**228,600**	207,659	**172,657**	78,377	**2,018,326**	1,738,057
Non-interest income	**1,041,600**	937,509	**103,878**	38,837	**79,083**	57,926	**134,923**	190,896	**1,359,484**	1,225,168
Fee and commission income	**865,657**	797,990	**–**	–	**49,101**	36,692	**45,207**	50,764	**959,965**	885,446
Net trading income	**160,259**	57,059	**–**	–	**21,321**	13,330	**(37,787)**	28,335	**143,793**	98,724
Other operating income	**15,684**	82,460	**369**	38,837	**6,287**	7,904	**11,690**	10,567	**34,030**	139,768
Net insurance premium income	**–**	–	**130,149**	–	**–**	–	**–**	–	**130,150**	–
Net claims and benefits paid	**–**	–	**(26,640)**	–	**–**	–	**–**	–	**(26,641)**	–
Asset management and administration fee	**–**	–	**–**	–	**2,374**	–	**115,813**	101,230	**118,187**	101,230
Operating income	**2,525,283**	2,389,530	**237,264**	38,837	**307,683**	265,585	**307,580**	269,273	**3,377,810**	2,963,225
Operating expenses	**(1,404,415)**	(1,296,349)	**(40,447)**	–	**(228,836)**	(196,306)	**(378,340)**	(302,453)	**(2,052,038)**	(1,795,108)
Operating profit	**1,120,868**	1,093,181	**196,817**	38,837	**78,847**	69,279	**(70,760)**	(33,180)	**1,325,772**	1,168,117
Share of joint arrangement and associates' results after tax	**3,675**	1,148	**–**	–	**–**	–	**72,657**	83,236	**76,332**	84,384
Profit before income tax	**1,124,543**	1,094,329	**196,817**	38,837	**78,847**	69,279	**1,897**	50,056	**1,402,104**	1,252,501
Income tax expense	**(326,828)**	(297,557)	**(24,994)**	–	**(19,192)**	(17,149)	**(15,791)**	(3,360)	**(386,805)**	(318,066)
Profit for the year	**797,715**	796,772	**171,823**	38,837	**59,655**	52,130	**(13,894)**	46,696	**1,015,299**	934,435
Change in value of FVOCI	**7,263**	44,026	**–**	–	**–**	–	**–**	–	**7,263**	44,026
Exchange differences on translation of foreign operations	**–**	–	**–**	–	**–**	–	**1,339**	7,779	**1,339**	7,779
Total comprehensive income	**804,978**	840,798	**171,823**	38,837	**59,655**	52,130	**(12,555)**	54,475	**1,023,901**	986,240

43. SEGMENT INFORMATION (continued)

43.2 Financial information (continued)

	Banking – Namibia		Microlending and related activities – Namibia		Banking – Botswana		Other		Group	
	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000	2019 N$'000	2018 N$'000
ASSETS										
Cash and balances with the central bank	**1,095,599**	1,221,703	**(4,168)**	7,427	**335,258**	259,360	**145,927**	154,067	**1,572,616**	1,642,557
Financial assets at fair value through profit or loss	**1,336,392**	4,166,953	**215,261**	102,859	**12,322**	395,333	**473,213**	580,836	**2,037,188**	5,245,981
Financial assets at amortised cost	**643,678**	624,715	**–**	–	**–**	–	**216,636**	249,537	**860,314**	874,252
Financial assets at fair value through other comprehensive income	**3,521,978**	134,028	**13,692**	–	**730,903**	–	**476,152**	–	**4,742,725**	134,028
Due from other banks	**862,394**	749,021	**–**	–	**811,027**	892,695	**50,622**	131,813	**1,724,043**	1,773,529
Loans and advances to customers	**31,290,543**	29,763,659	**1,030,432**	848,014	**5,456,672**	4,739,865	**271,936**	882,880	**38,049,583**	36,234,418
Other assets	**291,020**	274,478	**2,554**	159	**37,834**	55,653	**223,012**	282,180	**554,420**	612,470
Current tax asset	**76,919**	44,282	**–**	–	**9,649**	974	**22,981**	17,466	**109,549**	62,722
Investment in associates	**–**	–	**–**	–	**–**	–	**348,716**	282,511	**348,716**	282,511
Interest in joint arrangements	**11,016**	7,341	**–**	–	**–**	–	**–**	–	**11,016**	7,341
Intangible assets	**181,776**	182,476	**1,557**	–	**25,664**	26,372	**66,842**	75,085	**275,839**	283,933
Property, plant and equipment	**199,658**	172,955	**1,042**	2,255	**65,439**	29,968	**18,305**	33,268	**284,444**	238,446
Deferred tax asset	**26,318**	–	**4,014**	2,233	**2,068**	2,033	**75,102**	37,232	**107,502**	41,498
Total assets	**39,537,291**	37,341,611	**1,264,384**	962,947	**7,486,836**	6,402,253	**2,389,444**	2,726,875	**50,677,955**	47,433,686
LIABILITIES										
Due to other banks	**72,756**	63,037	**–**	–	**4**	26	**172,943**	189,620	**245,703**	252,683
Other borrowings	**799,646**	1,217,510	**55,000**	–	**–**	–	**141,726**	95,923	**996,372**	1,313,433
Debt securities in issue	**3,746,604**	3,537,990	**–**	–	**289,261**	333,134	**1,635,109**	905,950	**5,670,974**	4,777,074
Deposits	**30,073,810**	27,408,878	**–**	–	**6,562,837**	5,433,578	**348,078**	1,105,635	**36,984,725**	33,948,091
Other liabilities	**327,339**	314,200	**655,200**	643,087	**60,413**	98,526	**(437,833)**	176,376	**605,119**	1,232,189
Current tax liability	**–**	–	**–**	–	**–**	–	**2,052**	381	**2,052**	381
Deferred tax liability	**–**	7,205	**–**	–	**–**	–	**–**	–	**–**	7,205
Post-employment benefits	**12,232**	11,440	**–**	–	**–**	–	**–**	–	**12,232**	11,440
Total liabilities	**35,032,387**	32,560,260	**710,200**	643,087	**6,912,515**	5,865,264	**1,862,075**	2,473,885	**44,517,177**	41,542,496
EQUITY										
Share capital and premium	**485,000**	485,000	**130,005**	30,000	**318,858**	318,858	**(213,561)**	(109,351)	**720,302**	724,507
Non-distributable reserves	**85,954**	269,653	**–**	–	**–**	–	**–**	–	**85,954**	269,653
Distributable reserves	**3,933,950**	4,026,698	**424,179**	289,860	**255,463**	218,131	**395,548**	85,842	**5,009,140**	4,620,531
	4,504,904	**4,781,351**	**554,184**	319,860	574,321	**536,989**	181,987	**(23,509)**	5,815,396	**5,614,691**
Non-controlling interests in equity	**–**	–	**–**	–	**–**	–	**345,382**	276,499	**345,382**	276,499
Total shareholders' equity	**4,504,904**	4,781,351	**554,184**	319,860	**574,321**	536,989	**527,369**	252,990	**6,160,778**	5,891,190
Total equity and liabilities	**39,537,291**	37,341,611	**1,264,384**	962,947	**7,486,836**	6,402,253	**2,389,444**	2,726,875	**50,677,955**	47,433,686

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.

HEADLINE EARNINGS
Profit for the year attributable to the equity holders of the parent entity from trading operations, excluding goodwill gain 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).


www.capricorn.com.na