# Capricorn Group

# ANNUAL RESULTS

**for the year ended 30 June 2021**

## HIGHLIGHTS

**Profit after tax**
**N$983.0 million**
(2020: N$856.4 million)

**Earnings per share**
**170.7 cents**
(2020: 148.6 cents)

**Gross loans and advances**
**N$42.1 billion**
(2020: N$41.2 billion)

**Dividend per share**
**60 cents**
(2020: 50 cents)

**Net asset value per share**
**1,294 cents**
(2020: 1,232 cents)

**Return on equity**
**13.5%**
(2020: 12.6%)

**COVID-19 and other social responsibility commitments and spending**
**N$12.1 million**

**Capital adequacy ratio**
**15.0%**
(2020: 14.7%)

**COVID-19 relief: deferred payments on loans valued at**
**N$5.1 billion and BWP461.5 million**

Considering an economy that was in recession even before COVID-19, a contraction of 5.0% in GDP in the 2021 fiscal year and lasting indirect impacts of the pandemic, Capricorn Group Ltd returned satisfactory results for the year ended 30 June 2021.

Since the start of the pandemic in March 2020 we have provided payment holidays on loans freeing up N$343 million in cash flow to our clients as well as commitments and spending of N$17.1 million (FY2021 spend: N$12.1 million) in cash towards COVID-19 and other social relief measures. This social spend included assistance to the most vulnerable communities by providing food parcels and educational material as well as access to water and sanitation. We also procured COVID-19 testing kits and contributed over N$1 million to the private sector oxygen initiative when the country desperately needed oxygen during the third wave of infections in June and July 2021. We took special care of our employees by, among others, providing masks, hand sanitisers and immune boosters and promoting work from home. Wellness support to our COVID-19-positive employees and those who lost loved ones was ramped up by increasing access to additional psychological and spiritual counselling.

We review the Group performance below in terms of earnings quality, credit quality, liquidity and capital depth, the four key pillars of the Group's business.

## Earnings quality

The Group reacted swiftly to the low-interest environment and the threat to earnings in the year under review by, among others, implementing a proactive and effective assets and liability pricing strategy, active and close monitoring of asset quality, innovative fee pricing and a strong focus on essential spending.

### Adjusting to new levels of net interest income

Net interest income and interest margins were under pressure following unprecedented interest rate cuts of 250 basis points in Namibia and 100 basis points in Botswana between March 2020 and September 2020. Notwithstanding this, the Group's net interest income before impairment charges increased by 3.3% to N$2.26 billion.

Bank Windhoek's net interest margin recovered from a low of 3.02% to 4.06% due to a deliberate and successful repricing strategy on both assets and liabilities, while maintaining and protecting liquidity buffers.

Bank Gaborone's interest margin deteriorated from 4.60% to 3.79%, mainly as a result of increased cost of funding, despite an interest rate cut of 50 basis points in September 2020. Lower market liquidity led to aggressive pricing across the industry.

Entrepo Finance's net interest income increased by 16.1% to N$139.9 million as its loan book grew by 16.0% year-on-year.

### Resilient fee income

Non-interest income of the Group increased by 3.6% to N$1.48 billion (2020: N$1.42 billion).

Bank Windhoek and Bank Gaborone increased non-interest income by 4.3% and 28.8% respectively, mainly from increased transaction volumes.

Non-interest income was well supported by diversified income streams from asset management and life assurance businesses. Capricorn Asset Management's assets under management ended the year at N$31.8 billion (2020: N$31.3 billion), having reached an all-time high of N$33.6 billion towards the middle of the year. As a result, asset management fee income increased by 17.2% to N$158.7 million (2020: N$135.4 million). Net insurance income increased by 4.5% to N$127.8 million (2020: N$122.3 million).

### Associates

The diversification strategy of the Group continues to deliver good results with a significant increase of 62.6% in income from associates compared to the prior year. This growth was mainly due to a N$29.7 million increase in the contribution from Paratus Group and improved performances at Sanlam contributing an additional N$11.7 million to Group profits. The contribution from associates to the Group profit after tax increased from 6.3% in the prior year to 10.1%.

### Focus on essential spending

The Group incurred essential spending to ensure it remains competitive and sustainable for the future. Operating expenses increased by 5.1% compared to the prior year's 3.4% increase. Employee costs increased by only 2.9% (2020: 6.2%) notwithstanding an increase in information technology (IT) headcount as part of the Group's digitisation drive. Technology costs increased by 12.6% (2020: 36.6%) largely as a result of weaker Namibian and Botswana currencies with licence fees and certain other IT costs payable in US dollar and Euro. The investment in growing the Group's digital offering also contributed to the increased IT cost.

### Discontinued operations

Losses from discontinued operations decreased by N$114.4 million (73.5%) after the disposal of Cavmont Bank Ltd on 4 January 2021.

## Credit quality

Asset quality continues to be a key focus of the Group. Lending is a core strength of Bank Windhoek and has been gaining scale at Bank Gaborone. The COVID-19 impact on sectors such as travel, tourism, hospitality and construction resulted in deferments of instalments, increase in non-performing loans (NPLs) and muted private sector credit demand. However, local decision-making, deep customer knowledge and relationships, and effective credit risk management enabled the Group to grow market share in loans and advances, while managing NPLs responsibly.

Bank Windhoek grew loans and advances by 4.0%, well above the Private Sector Credit Extension of 2.7%, as it continues to be the market leader in Namibia. Bank Gaborone increased loans and advances by 4.8%, also continuing its trajectory to grow market share. The growth in loans and advances of the two banks was mainly attributable to mortgage loans, term loans and overdrafts.

An improvement as a result of COVID-19 was a further enhancement to proactive credit management by, among others, implementing improved early detection measures to ensure rapid response to increasing credit risk. Notwithstanding this, NPLs continued an upward trend across the sectors as COVID-19 conditions continued to put customers under financial strain. Capricorn Group's total NPLs increased from N$1.92 billion to N$2.46 billion (28.1%), resulting in an increase in the NPL ratio from 4.7% to 5.2%.

Given the uncertainty caused by COVID-19 and specifically the third wave experienced in Namibia and Botswana during the period June 2021 to August 2021, the Group retained the full forward-looking stressed overlay on IFRS 9 impairments created in the prior financial year. In addition to this, and over and above the IFRS 9 model provisions, the Group provided an additional amount for specific expected credit losses on the performing book given the uncertainty created by the third COVID-19 wave.

Bank Windhoek and Bank Gaborone deferred payments on loans valued at N$5.1 billion and BWP461.5 million during the financial year to support our clients during the current COVID-19-impacted economic environment. At 30 June 2021, loans valued at N$158.8 million and BWP272.1 million remain deferred, mainly related to the hospitality and tourism sectors. These deferred loans remain well collateralised.

## Liquidity position

Liquidity is a key priority for Capricorn Group. Maintaining appropriate levels of liquidity always takes preference over profit optimisation.

Liquid asset levels remained well above regulatory requirements. As at 30 June 2021, Bank Windhoek's liquid assets showed a surplus of N$3.1 billion over the Bank of Namibia minimum liquid asset requirements, while Bank Gaborone had a surplus of BWP681.4 million above Bank of Botswana requirements. In addition to these surpluses, the Group holds N$1.0 billion contingency funding, which is available to the two banking subsidiaries within seven days. Liquidity levels remain healthy and within acceptable internal thresholds.

Bank Windhoek increased funding by 2.8% to N$38.1 billion (2020: N$37.1 billion). Under difficult market conditions, Bank Windhoek was able to increase operating, current and savings account balances by 1.6%. It also adjusted well by implementing a proactive and effective liability repricing strategy to protect interest margins in the wake of the sharp decrease in lending rates during the first half of 2020.

Bank Gaborone increased funding by 11.0% to BWP5.8 billion (2020: BWP5.2 billion). This was mainly driven by an increase in term and notice deposits. The bank also delivered on its strategy to increase market share in the less expensive sources of funding by growing savings accounts by 19.4% and current accounts by 24.4%. This strong growth in funding resulted in the loan-to-funding ratio improving from 90.8% to 86.0% year-on-year.

## Capital depth

The Group remains well capitalised with a total risk-based capital adequacy ratio of 15.0% (2020: 14.7%), well above the minimum regulatory capital requirement of 10%. Tier 1 risk-based capital ratio increased from 13.8% to 14.1%, while the leverage capital ratio increased by 0.3% to 12.4% year-on-year.

Although the Group continues to preserve capital and maintain its large capital base, it managed to increase its return on equity to 13.5% (2020: 12.6%) mainly due to:

- Better than anticipated results from banking operations
- Realising the benefits of diversification as Entrepo, Capricorn Asset Management and Paratus performed well above expectations, having been less impacted by COVID-19
- Positive contribution to the bottom line arising from the sale of Cavmont Bank

## Outlook and expectations

As we embark on the future, the stability and sustainability of the Group for the benefit of all stakeholders remain our key priority. We believe that economic growth in Namibia and Botswana will accelerate as COVID-19 infections subside and vaccination accelerates. We believe Botswana offers good growth opportunities, with a real GDP growth of 8.8% projected for 2021. We plan to launch a microlending business and structured trade finance initiatives in Botswana in the next year.

Economists are still expecting interest rates to remain flat in the short term. We can expect external factors to continue muting customer and business confidence. As a Group, we remain committed to developing our new business pipeline and revenue streams to grow, even under these challenging conditions.

Capricorn Group delivered resilient returns under difficult conditions. To maintain this position, we continue building on the strength of our diversified operations and revenue streams while investing in digital and data to enhance the client experience.

### Final dividend

The Group declared a final dividend of 38 cents per ordinary share. Taking into account the interim dividend of 22 cents per ordinary share, this represents a total dividend of 60 cents per ordinary share (2020: 50 cents per ordinary share). We believe that the dividend balances prudency with a fair dividend yield for shareholders.

### Dividend payment details

- Last day to trade cum dividend: 1 October 2021
- First day to trade ex-dividend: 4 October 2021
- Record date: 8 October 2021
- Payment date: 22 October 2021

| | Year ended 30 June 2021 Audited N$'000 | Year ended 30 June 2020 Audited N$'000 | % change |
|---|---|---|---|
| **Extract of Consolidated Statement of Comprehensive Income** | | | |
| Net interest income | 2,255,303 | 2,183,976 | 3.3% |
| Impairment charges | (443,748) | (407,448) | 8.9% |
| **Net interest after loan impairments charges** | 1,811,555 | 1,776,528 | 2.0% |
| Non-interest income | 1,475,911 | 1,424,711 | 3.6% |
| Operating expenses | (1,996,935) | (1,900,877) | 5.1% |
| **Operating profit** | 1,290,531 | 1,300,362 | (0.8%) |
| Share of joint arrangements and associates results after tax | 103,613 | 66,528 | 55.7% |
| **Profit before tax from continuing operations** | 1,394,144 | 1,366,890 | 2.0% |
| Taxation | (369,843) | (354,795) | 4.2% |
| **Profit from continuing operations** | 1,024,301 | 1,012,095 | 1.2% |
| Discontinued operations | (41,274) | (155,683) | (73.5%) |
| **Profit after tax** | 983,027 | 856,412 | 14.8% |
| **Extract of Consolidated Statement of Financial Position** | | | |
| Cash and balances with central bank | 1,319,389 | 909,117 | |
| Other financial assets | 11,789,085 | 11,797,250 | |
| Loans and advances to customers | 40,829,687 | 40,078,622 | |
| Other assets | 2,074,830 | 2,035,743 | |
| Assets held for sale | – | 1,517,394 | |
| **Total assets** | 56,012,991 | 56,338,126 | |
| Capital and reserves attributable to ordinary shareholders | 6,613,934 | 6,308,105 | |
| Non-controlling interests | 490,289 | 421,959 | |
| Deposits | 40,179,699 | 39,323,264 | |
| Other funding | 7,505,541 | 7,472,936 | |
| Other liabilities | 1,223,528 | 1,314,974 | |
| Liabilities held for sale | – | 1,496,888 | |
| **Total equity and liabilities** | 56,012,991 | 56,338,126 | |
| Net asset value per share (cents) | 1,294 | 1,232 | |
| Basic earnings per share (cents) | 170.7 | 148.6 | |
| Headline earnings per share (cents) | 173.4 | 157.2 | |

## Other disclosable information

### Address


Postal address: P.O. Box 15, Windhoek, Namibia;
Registered address: Capricorn Group Building, Kasino Street, Windhoek, Namibia;
Tel: (+264 61) 299 1301; Fax: (+264 61) 299 1309;
Email: investors@capricorn.com.na; Sponsor: PSG Wealth Management (Namibia) (Pty) Ltd Member of the Namibian Stock Exchange
(Incorporated in the Republic of Namibia)
(Date of Registration: 5 September 1996)
(Registration Number: 96/300)
Share code: CGP ISIN: NA000A1T6SV9


### Board of directors

Non-executive directors: J J Swanepoel (chairperson), D G Fourie (lead independent director), J C Brandt, H M Gaomab II, G Menetté, D J Reyneke*, G Sekandi**, E Solomon*
Executive directors: M J Prinsloo* (group chief executive officer), J J Esterhuyse*(financial director)

* *South African*
** *Ugandan*

### Basis of presentation

The audited annual financial statements of Capricorn Group Ltd for the year ended 30 June 2021 from which this information is derived, have been prepared in accordance with International Accounting Standards and the requirements of the Companies Act of Namibia, 28 of 2004. This results announcement is the responsibility of the directors, and is extracted from the audited annual financial statements, but is not itself reviewed or audited.

### DETAILS FOR QR CODE

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