

Bank Windhoek Limited

Namibia Bank Analysis

November 2011

Security class	Rating scale	Currency	Rating	Rating watch	Expiry Date
Long term	National	N\$	AA	No	11/2012
Short term	National	N\$	A1+		
Long term	Regional	Rand	A-	No	11/2012
Short term	Regional	Rand	A1-		

Financial data:

(US\$'m Comparative)

	30/06/10	30/06/11
N\$/US\$ (avg.)	7.9	6.6
N\$/US\$ (close)	7.8	6.5
Total assets‡	1,818.1	2,410.7
Tier I capital†	145.8	200.1
Tier II capital†	40.0	68.2
Net advances	1,453.8	2,003.7
Liquid assets	278.8	308.6
Operating income	113.4	155.9
NPAT	31.3	42.0
Market cap.	Not listed	
Market share*	29.7%	

‡ Excludes off balance sheet items.

† Relates to regulatory capital as per IFRS rules.

* Relates to % of industry assets at June 2011.

Fundamentals:

Bank Windhoek Limited (“Bank Windhoek” or “the bank”) was founded in 1982 and is the only locally owned bank in Namibia. It offers a comprehensive range of personal, corporate, electronic and international banking services through a network of 27 branches, 25 service agencies and more than 272 ATM/Cash Express Machines. The bank (under the ownership of Bank Windhoek Holdings Limited) is the flagship brand of ultimate parent, Capricorn Investment Holdings Limited - a regional, diversified financial services group.

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Rating rationale

The ratings are based on the following key factors:

- The accorded ratings reflect the bank’s established domestic franchise value, improving asset quality/performance and risk appropriate capital cushioning. These are, however, partially offset by the uncertainties surrounding a stable and continuing global economic recovery- given the impact of a regression on Africa.
- Despite its impact being nothing more than theoretical at present, the plethora of regulatory changes currently being debated must be kept in mind. The basic items here include: *capitalisation* - the proposed changes touch on what can be classified as capital, as well as how much is needed (to be boosted by the addition of a capital conservation, procyclicality and countercyclical buffer); *liquidity* - details a strong preference for longer-dated funding to increase banks’ short-term resilience (to be monitored by the net stable funding and liquidity coverage ratios); *other risk measures* - improved monitoring and limitations on leverage, counterparty exposures and provisioning models (new accounting treatments are also being brought in); *oversight* - several matters have been tabled by the Treasury, although which proposals will stay is still unclear. Naturally, the banking sector’s readiness for all these changes should be tracked/considered for any risk assessments.
- Although repayment pressure continued to drag on portfolio performance, the overall position remained sound. Borrowers benefitted from a reduction in market interest rates, which helped combat some of the erosion in disposable income, thereby aiding an improvement in on-time repayment rates and the remedy of instalments that have fallen in arrears. The improved client performance experience is also reflected in the year-end ratios.
- Reflecting the challenges of a still recovering environment, as well as the bank’s own conservative strategy, real revenue growth was restricted to only a few income statement lines - albeit, the relatively diversified nature of the bank’s revenue streams, as well as lower impairment costs, has helped to grow bottom line profits.

Financial flexibility

The bank’s total funding base increased by 10.4% to N\$13.9bn during the review period, and is made up of customer deposits (71%), intermarket loans/deposits (2%) and capital market funding (27%) - of the latter, an additional N\$100m was raised in November 2011.



Organisational profile

General overview

Targeting the Namibian market, the bank focuses on providing a broad spectrum of financial products to both wholesale (incl. government) and retail clients.

Ownership structure

The table below provides a full breakdown of the bank's main shareholders (direct and indirectly via the shareholdings of its parent) as at end-June 2011.

Table 1: Shareholding composition	%
Bank Windhoek Holdings	100.0
<i>Which, in turn, is owned by the following parties:</i>	
Capricorn Investment Holdings	72.8
Nam-mic Financial Services Holdings†	10.3
CIH Group Employee Share Trusts	3.9
Other (non-related)	13.0

† Capricorn Investment Holdings also has a 31.7% stake in this entity.
Source: Bank Windhoek.

The bank itself has operational/financial interests in several non-core, albeit, financially focused, entities.

Company Name	Business Activity	Shareholding
Bank Windhoek Nominees†	Custodial services	100%
Intellect Investments†	Holds BW's trademark	100%
BW Finance†	Micro lending	100%
Bank Windhoek Properties†	Property investment	100%
Namclear	Payment clearing	25%
Tourvest Namibia (JV)	Foreign exchange	50%

† Contribution to operating income F2011: N\$10.5m & F2010: N\$7.1m.

Governance structure¹

The bank's directorate is made up of one executive director (being the current managing director) and seven non-executive directors (including both the chairman and vice-chairman) - of the latter, three directors are considered completely independent. In addition, the duties of the managing director and non-executive chairman have been separated so that no single individual or minority group has unfettered control over any part of the decision making process.

Other governance and control issues

The following items were also reviewed by GCR and were found to be broadly in-line with requirements.

Testing description	Findings
Tenure of executive directors	5-year, fixed term contracts
Tenure of non-executive directors	Re-elect at AGM after 3-years
Board and management committees	Standard, dual layer structure
Composition of committees	In-line with regulation code
Internal audit & compliance function	Yes (with board level input)
External auditors & rotation policy	Pricewaterhouse/ Each AGM
Code of conduct/ Ethical practice rules	Yes, guided by King III rules
Anti-money laundering & KYC policies	Yes, per central bank guide

¹ Given the intricacies associated with good corporate governance (and the fact that these issues fall outside the scope of this report), GCR recommends an independent assessment to test true compliance.

Financial Reporting

Bank Windhoek's accounts are in accordance with international accounting standards and the annual accounting information is reasonably detailed and transparent (periodic performance memos are also easily accessible through the bank's web platform).

Operating environment

General economic overview

In tandem with the global recovery, the Namibian economy also showed a strong resurgence - driven largely by stronger global demand and commodity prices, as well as counter cyclical policy measures.

Economic sectors	Items affecting output	Net impact
Mining/Quarrying	↑ demand for diamonds and uranium	Positive
Agriculture	Favourable weather and higher prices	Positive
Manufacturing	↑ processing of fish, meat and grains	Positive

These items were, however, offset by the following:

Construction	Tightening of credit and debt pressure	Negative
Service and trade	↑ job losses and low disposable cash	Negative

The impact of said recovery/policy measures is also reflected in the country's short-term growth forecasts.

Macroeconomic indicators	2009	2010e	2011f
Real GDP growth (annual change)	(0.7%)	4.2%	4.8%
CPI inflation (annual average)	8.7%	4.5%	6.1%
Budget balance (% of GDP)	2.1%	(3.0%)	(2.3%)
Current account (% of GDP)	1.5%	(2.9%)	(3.5%)

Source: Bank of Namibia and AfDB.

Banking sector overview

The table below provides a snapshot of most key performance metrics, covering the most recent year.

Industry indicators (annual change)	Percentage
Total balance sheet assets	8.0%
Gross loans and advances	9.0%
Customer deposit liabilities	8.8%

Performance ratios (outcome and trend direction)

Core capital to risk-weighted assets	15.3% - ↑
Non-performing loans to gross loans outstanding	2.0% - ↓
Liquid assets to total balance sheet assets	12.4% - ↑
Return on average balance sheet assets	2.5% - ↑
Return on average shareholders equity	23.6% - ↑

Source: Bank of Namibia.

Competitive position

The following table provides an analysis of the bank relative to its peers, focusing on the key operational indicators for the current financial reporting period.

Table 2: Peer analysis (N\$m)†	BW	FNB	Standard	Nedbank
Total assets†	15,670	15,888	14,546	6,816
Market share	29.7%	30.1%	27.6%	12.9%
Gross customer loans	13,135	12,682	9,180	5,279
Market share	32.6%	31.5%	22.8%	13.1%
Customer deposits	13,656	13,324	11,744	5,672
Market share	31.3%	30.6%	29.2%	13.0%

† Excluding off-balance sheet items. Source: Industry shared info.

Financial profile

Likelihood of support

Recourse to non-conventional emergency funding support sources can be categorised as follows: (i) direct/indirect government support - likely, but under exceptional circumstances only², and (ii) shareholder support - being the most viable funding alternative.

Funding composition

Discussed below, is the observed y/y funding trends:

	F10		F11	
	N\$'m	%	N\$'m	%
Customer deposits	8,420	66.9	9,853	70.9
<i>Demand and call</i>	2,591	20.6	2,949	21.2
<i>Savings</i>	591	4.7	692	5.0
<i>Other</i>	5,237	41.6	6,213	44.7
Banking institutions†	-	-	247	1.8
Other credit facilities‡	4,168	33.1	3,802	27.3
Total	12,588	100.0	13,903	100.0

† Relate to short-term deposits/placements and other overnight loans.

‡ Includes capital portion of term debt at N\$312.2m (F2010: N\$197.6m).

Source: Bank Windhoek.

Customer deposits and interbank funding: Despite the noted reprise in economic adversity, the lag in facilitatory policy action gaining significant traction has kept a complete/sustainable turnaround at bay.

That said, the bank was successful in attracting a fair amount of the available liquidity - customer deposits up 1.2x and made up just over ⁷/₁₀ of funding held.

Funding base - Maturity profile	Growth	% Share
Short-term (< 12-months)	(0.9%)	88.5%
Medium to long-term (> 12-months)	8.4x	11.5%

Funding base - Currency profile	Growth	% Share
Foreign currency	18.1%	1.6%
Local currency	10.3%	98.4%

Also noted, though, was an increased utilisation/acceptance of interbank loans/deposits - although, accounting for a small percentage of total funding.

Capital and money market activities: As stability slowly returned to the equity and debt markets, the perceived safety and relative risk/return potential associated with local banking business has drawn back investors sitting on low yielding/idle cash stock.

Major impacts on other market funding

Subordinated debt	N\$200m unsecured callable note (one issue)
Senior debt/notes	Floating rate notes ↑ N\$200m (two issues)
Other instruments	Negotiable certificates of deposit ↓ 19.7%

Capital structure

Represented below is a comparative snapshot of the bank's capital base and risk-weighted asset exposures (note all ratios are well above statutory thresholds).

² The bank is considered fundamentally important to the local banking system (being the country's only indigenously owned deposit bank).

	F10	F11
	N\$'m	N\$'m
Total reported equity†	164	168
<i>Paid up common shares</i>	164	164
<i>Retained earnings</i>	-	5
Add: Eligible reserves	973	1,132
Primary capital	1,137	1,301
Add: Hybrid capital	312	443
Regulatory capital	1,449	1,744
Total risk weighted assets ("RWA")	11,524	13,199
Core capital: RWA	9.9%	9.9%
<i>Statutory requirement @ 7%</i>		
Total capital: RWA	12.6%	13.2%
<i>Statutory requirement @ 10%</i>		

† Including share premium.

Source: Bank Windhoek.

Risk management

Overall, Bank Windhoek has a conservative approach to risk management. It tends to be relatively cautious in its assumption of risk and to reserve adequately against all known risks, generally in a timely manner.

Credit risk (strategic) overview

Although the fractional make-up of the bank's asset base showed very little change, the fact that credit growth exceeded that of both the aggregate balance sheet and funding liabilities does indicate a slightly more aggressive or open stance towards risk taking.

	F10		F11	
	N\$'m	%	N\$'m	%
Loans and placements	11,743	72.9	13,386	73.8
<i>Net customer loans</i>	11,340	70.3	13,024	71.8
<i>Bank loans/deposits†</i>	404	2.5	362	2.0
Other instruments	1,377	8.5	1,524	8.4
<i>Treasury bills/bonds</i>	955	5.9	1,159	6.4
<i>Trading portfolio</i>	114	0.7	37	0.2
<i>Investment portfolio</i>	308	1.9	329	1.8
<i>Other assets</i>	1	< 0.01	-	-
Contingencies	1,938	12.0	2,473	13.6
<i>Guarantees & LC's</i>	738	4.6	962	5.3
<i>Undrawn facilities</i>	1,199	7.4	1,510	8.3
Total on & off B/S assets	16,119	93.4	18,143	95.8

† Classified as cash and liquid assets as term-to-maturity ≤ 3-months.

Source: Bank Windhoek.

Loan portfolio

Accounting for the majority of all credit risk on the bank's balance sheet, gross loans outstanding was up 1.1x - which, while lower than the previous period's outturn, exceeded the market and all peer averages.

Loan book - Maturity profile	Growth	% Share
Short-term (< 6-months)	14.6%	20.0%
Medium to long-term (> 6-months)	14.8%	80.0%

Loan book - Currency profile	Growth	% Share
Foreign currency	(78.5%)	< 0.01%
Local currency	15.0%	100.0%

Lending to individuals (retail): Borrowing activity reflected a mixed trend over the period - with growth up in the first two quarters, slowing down in the third and shrinking notably over the final quarter - with harsher credit protocols, waning demand and debt consolidation all contributing in some way or form.

Retail portfolio – Product split (% all loans)	Growth	% Share
Overdrafts	(21.5%)	3.0%
Mortgages	41.5%	28.4%
Term loans	29.2%	11.1%

That said, though, total household credit was up 1.3x, now making up just over ⅓ of the gross loan book.

Table 6: Gross loan and advances book characteristics†

By sector:	%		%
Agriculture & fishing	8.9	Manufacturing	3.8
Building & construction	6.7	Transport	2.0
Finance & insurance	4.7	Mining	0.3
Government	0.1	Other	73.5

By product type:	%	Largest exposures:	%
Term loans	66.7	Single largest	0.8
Overdrafts	16.4	Five largest	2.6
Other	16.9	Ten largest	4.2

† Excludes cash accounts and FX demand placements with other banks.
Source: Bank Windhoek.

Lending to businesses (wholesale): Financing of the non-financial corporate and small business sectors retained its positive momentum, driven largely by a uptick in demand from the productive and industrial sectors - increased by 1.1x in total (1.2x previously).

Wholesale portfolio – Type split (% all loans)	Growth	% Share
Corporates and larger businesses	5.3%	37.8%
Small and medium enterprises	5.1%	19.7%

Asset quality

Although repayment pressure continued to drag on portfolio performance, the overall position remained sound - comparatively, though, the impairment ratio outperformed both the market and peer benchmarks.

Table 7: Asset quality	F10	F11
	N\$'m	N\$'m
Gross advances†	11,443	13,135
Performing	11,270	12,942
Non-performing	173	193
Less: Impairment provisions	(103)	(111)
Specific provisions	(62)	(68)
Portfolio provisions	(41)	(43)
Net advances	11,340	13,024
Fair value of collateral‡	103	120

Select asset quality ratios		
Gross impairment ratio	1.5%	1.5%
Net impairment ratio	2.0%	2.0%
Net impairments/Total capital	16.2%	14.9%

† Exclude cash accounts and FX demand placements with other banks.

‡ Relates to registered security held on all loans past due.

Source: Bank Windhoek.

Apart from the conventional analysis above, several other structural elements/inputs were also considered.

Other performance metrics (by product line)

Overdrafts	Impairments ↑ 30.5% (↑ 2.2% - 2.7% of total)
Term loans	Impairments ↑ 7.0% (↓ 1.5% - 1.4% of total)
Mortgages	Impairments ↓ 3.5% (↓ 1.3% - 1.1% of total)
Instalment finance	Impairments ↑ 26.4% (↑ 1.3% - 1.4% of total)

Other performance ratios (response and protection)

Credit loss ratio	IS charge to average loans stayed flat at 0.2%
Write-off ratio	Retail book at 0.1%, wholesale book at 0.2%
Coverage ratio	BD coverage down marginally, 35.9% - 35.1%

Financial performance

A 5-year financial synopsis is reflected at the back of this report, supplemented by the commentary below.

Reflecting the challenges brought by a still depressed environment, as well as the bank's own conservative strategy, real revenue growth was restricted to only a few income statement lines - albeit, the diversified nature of the bank's revenue streams, as well as lower impairments, has helped to grow bottom line profits.

Earnings fundamentals do, however, remain mixed and should stay as such until the economy recovers completely - as the risk of exogenous shocks linger.

Income statement - Benchmarks

	Targets
Net interest income	↑ 11.8%
Other income	↑ 9.0%
Loan loss provisions	↑ 2.1x
Operating expenditure	↑ 1.0%

A summary of all the gyrating forces on the income statement, and its eventual outcome, is shown below.

Movement per main income statement lines

Net interest income	↑ 18.2% despite moderate loan growth, lower interest rates (prime and spreads) and a drop in bond yields and equity returns - this is due to per loan pricing for credit risk, a focus on higher margin products and successful hedging. • Net interest margin up from 4.5% to 4.7%
Other income	Fee and commission income ↑ 15.1% (F2010: up 19.8%) driven by lending volumes and an increase in off-balance sheet facility activity. Trading income ↓ 12.0% (F2010: down 9.5%) due to lower foreign exchange buy/sell flows. Other income ↓ 34.8% (F2010: 24.5%) due to lower management/support fees earned. • Other income to total from 36.6% to 34.7%
Impairment charge	Net provisions raised ↑ 18.9% (F2010: 14.8%), however, the average credit loss and write-off ratios remained low at 0.2% respectively. • Provisions to total income from 2.5% to 2.6%
Operating expenses	Total costs ↑ 12.0% (F2010: up by 14.6%) and reflected both inflationary and organisational growth escalations - staff costs ↑ 13.8% and represents 54.5% of all operating expenses. • Expenses to total income - 59.2% to 57.7%

Bank Windhoek Limited

(N\$ in Millions except as noted)

For the year ended 30 June

Income Statement	2007	2008	2009*	2010*	2011
Interest income	914	1,223	1,398	1,300	1,352
Interest expense	(538)	(761)	(899)	(733)	(680)
Net interest income	376	463	498	568	671
Other income	236	287	287	328	357
Total operating income	611	750	785	896	1,029
Loan loss provision	(27)	(24)	(20)	(23)	(27)
Operating expenditure	(336)	(425)	(463)	(530)	(594)
NPBT	248	302	303	343	408
Tax	(85)	(93)	(94)	(95)	(131)
NPAT	163	209	209	247	277
Other after-tax income / (expenses)	-	-	-	1	1
Net income	163	209	209	248	278

Balance Sheet

Common shareholders equity	614	913	1,052	1,249	1,434
Hybrid capital instruments	198	198	199	198	312
Total capital and reserves	812	1,111	1,251	1,447	1,746
Deposits, interbank borrowings & other	7,522	8,939	10,664	12,391	13,289
Bonds and other debt securities	-	-	-	-	301
Other liabilities	408	357	329	344	333
Total capital and liabilities	8,742	10,407	12,244	14,182	15,670
Cash and liquid assets	1,089	1,398	1,891	2,174	2,006
Net customer advances	7,317	8,375	9,711	11,340	13,024
Investments	5	221	291	308	329
Other assets	332	414	351	360	311
Total assets	8,742	10,407	12,244	14,182	15,670
Contingencies	1,421	1,222	1,748	1,938	2,473

Key ratios (%)

Capitalisation

Total capital / Deposits	10.8	12.4	11.7	11.7	13.1
Total capital / Assets	9.3	10.7	10.2	10.2	11.1

Liquidity

Advances / Total deposits	97.3	93.7	91.1	91.5	98.0
Cash and liquid assets / Total assets	12.5	13.4	15.4	15.3	12.8
Cash and liquid assets / Total deposits	14.5	15.6	17.7	17.5	15.1

Asset quality

Total loan loss reserves / Advances	1.6	1.4	1.2	0.9	0.9
Loan loss provision / Average advances	0.4	0.3	0.2	0.2	0.2
Loan loss provision / Total operating income	4.4	3.1	2.5	2.5	2.6
Growth in loan loss reserves	9.0	(0.6)	(4.9)	(8.8)	7.4

Profitability

Net interest margin	4.8	5.1	4.7	4.5	4.7
Non interest income / Total operating income	38.6	38.3	36.6	36.6	34.7
Cost ratio	55.0	56.7	58.9	59.2	57.7
Net profit margin	40.6	40.2	38.5	38.3	39.6
Effective tax rate	34.2	30.8	31.0	27.8	32.1
ROaE	28.4	27.3	21.3	21.6	20.7
ROaA	2.0	2.2	1.8	1.9	1.9

Nominal growth indicators

Assets	17.3	19.0	17.6	15.8	10.5
Advances	12.1	14.5	16.0	16.8	14.9
Shareholders equity	14.5	48.7	15.2	18.7	14.8
Deposits	17.7	18.8	19.3	16.2	7.3
Net income	26.3	27.9	0.1	18.9	11.8

* Restated