GCR GLOBAL CREDIT RATING CO.
Local Expertise • Global Presence

GLOBAL CREDIT RATING CO.

Capricorn Investment Group Limited

Namibia Bank Analysis | **November 2018**

Rated entity	Rating class	Rating scale	Rating	Rating outlook	Review date
Capricorn Investment Group Limited	Long-term	National	$AA_{(NA)}$	Stable	November 2019
Capricorn Investment Group Limited	Short-term	National	$A1+_{(NA)}$		
Bank Windhoek Limited	Long-term	National	$AA_{(NA)}$	Stable	November 2019
Bank Windhoek Limited	Short-term	National	$A1+_{(NA)}$		
Bank Windhoek Limited	Long-term	National	$A+_{(ZA)}$	Stable	November 2019

Financial data:

(USDm comparative)

	30/06/17	30/06/18
NAD/USD (avg.)	13.61	12.86
NAD/USD (close)	13.05	13.73
Total assets†	3 540.9	3 703.1
Total capital°	393.9	429
Total borrowings	403.9	443.6
Net advances	2 562.0	2 639.1
Liquid assets	562.1	630.8
Operating income	194.5	344.4
Profit after tax	67.4	168.9
Market cap.*	NAD92bn/USD671.9m	
Market share		29.8%

† Including off-balance sheet items, excluding goodwill.
° Excluding goodwill, including non-controlling interest.
* Namibian Stock Exchange at 19/11/18.

Rating history:

Capricorn Investment Group Limited
Initial rating (November 2015)
Long-term: $AA_{(NA)}$
Short-term: $A1+_{(NA)}$
Rating outlook: Stable
Last rating (November 2017)
Long-term: $AA_{(NA)}$
Short-term: $A1+_{(NA)}$
Rating outlook: Stable

Bank Windhoek Limited
Initial rating (September 2005)
Long-term: $AA_{(NA)}$
Short-term: $A1+_{(NA)}$
Rating outlook: Stable
Initial rating (November 2013)
Long-term (South Africa national scale): $A-_{(ZA)}$
Rating outlook: Stable
Last rating (November 2017)
Long-term: $AA_{(NA)}$
Short-term: $A1+_{(NA)}$
Rating outlook: Stable
Long-term (South Africa national scale): $A+_{(ZA)}$
Rating outlook: Stable

Related methodologies/research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017
BW rating reports (2005-17)
Capricorn Group rating reports (2015-17)

GCR contacts:

Primary Analyst/Secondary Analyst
Vimbai Muhwati/ Victor Matsilele
Analyst/Junior Analyst
vimbai@globalratings.net/
victorm@globalratings.net

Committee Chairperson
Matthew Pirnie
Sector Head: Financial Institutions
matthewp@globalratings.net
Analyst location: Johannesburg, ZA
Tel: +27 11 784 – 1771
Website: http://globalratings.net

Summary rating rationale

- The accorded ratings reflect Capricorn Investment Group Limited's ("Capricorn Group", "the Group") adequate capitalisation, growing earnings, adequate funding and liquidity. An adverse economic environment affected the Group's asset quality and earnings growth potential. Its competitive position is strong, supported by a large market share in an oligopolistic Namibian banking industry with high barriers to entry. The Group is diversified, with a significant presence in the asset management and insurance markets, as well as geographic diversity from operations in Zambia and Botswana which, contribute a combined 16.9% to Group consolidated assets.
- The stable outlook reflects our assumption that the economic climate is improving and thus the performance of the Group is bound to stabilise with an expectation of growth in earnings and in tshe long-term an improvement in asset quality.
- The Group has a strong competitive position particularly in Namibia through its subsidiary Bank Windhoek Limited ("BW"). BW contributes 78.7% to Group assets and is the 2nd largest bank in Namibia with a 29.8% market share of industry assets. The Group's substantial market position within the Namibian economy and strong local shareholder base make it well positioned to take advantage of positive growth and infrastructure/other development within the domestic economy. Other non-banking subsidiaries and associates (offering asset management, unit trust management products and services, property development and long and short-term insurance) contributed 4.3% of consolidated assets and 11.4% of pre-tax profits at FY18.
- The Group's capitalisation is adequate with a tier 1 to risk weighted assets ratio of 15.1% (FY17: 15.4%) and BWs at 14.4% (FY17: 13.4%) as at FY18, which is above the 10% minimum requirement. We expect the capitalisation levels of the Group to remain fairly strong with the total capital adequacy ratio expected to be in the range of 15%-17% in line with our assumption that Group earnings will stabilise supported by a recovery in the performance of the economy. We expect earnings to grow by 6-11% supported by non-interest income as BW seeks to grow transaction-based income.
- The Group's risk position is adequate in comparison to peers. The Group, like most banks, suffered from the adverse economic conditions. Consequently, the gross non-performing loan ("NPL") ratio rose to 3.4% at FY18 (FY17: 2.2%) because of Cavmont bank in Zambia and Bank of Gaborone in Botswana which historically have higher NPLs, as it was the first year their results were fully consolidated into the Groups results. NPLs are expected to reach the peak in FY19 before stabilising and improving in the long-term. The group's reserving was also low with a loan loss reserve to non-performing and classified assets of 19.9%. Positively, credit losses remained at the lower end (0.2%) compared to peers.
- The Group is predominantly funded by customer deposits (84%) of which 68% are wholesale. Funding is augmented by committed lines from the debt capital market and development finance institutions ("DFIs") and group funding available on emergency. The liquid assets to wholesale funding ratio is 1.61x. BW is exposed to portfolio concentration risk which is a market wide phenomenon and stress tests show it may face liquidity challenges in the event of a liquidity shock as a result of its reliance on wholesale funding as deposits from wholesale banking clients are confidence sensitive. Successful development of the retail deposit base will somewhat stabilise funding. Positively, liquidity is considered adequate. BW (on a solo basis) had a liquidity coverage ratio ("LCR") and net stable funding ratio ("NSFR") of 103% and 114% respectively at FY18.

Factors that could trigger a rating action may include

Positive change: A sustained improvement in asset quality, capitalisation and reserving as well as an improved economic environment could positively affect the rating.

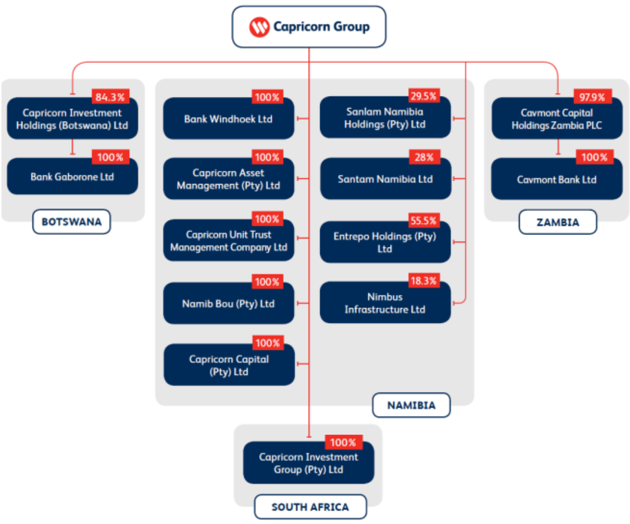
Negative change: A sharp deterioration in the capital position, liquidity, earnings and asset quality, could see the ratings come under pressure.

Company profile[1]

Group structure

The Capricorn Group is an investment holding company, which is listed on the Namibian Stock Exchange ("NSX"). Through its subsidiaries and associates, Capricorn Group provides a diverse range of services, including: banking, long and short-term insurance, property development, asset management and unit trust management.

Figure 1: Capricorn Group's key investments (subsidiaries and associates) at 30 June 2018



BW remains the flagship of the Group, contributing 80.1% of Capricorn Group's consolidated assets at FY18 and 87.0% of pre-tax profits[2].

Ownership structure

Table 1: Capricorn Group shareholding Composition	FY17 %	FY18 %
CIH	40.7	41.0
GIPF†	26.0	25.9
Nam-mic Financial Services Holdings (Pty) Limited	9.9	10.2
Capricorn Group Employee Share Trusts	3.4	3.4
Other	20.0	19.5
Total	**100.0**	**100.0**

Source: AFS.

The Group's focus remains on building and extending the Group's foundation in Namibia, Botswana and Zambia; developing all-round capabilities in effective strategy execution that improves customer service; exploring strategic partnerships; and explore technological, borderless and cyber opportunities.

Management and Governance[3]

Capricorn Group and all subsidiaries comply with rules on good corporate governance as set out in the Corporate Governance Code for Namibia ("NamCode"). Furthermore, the Group's varied offerings and debt raising activities attract oversight from several regulatory bodies. The banking subsidiaries are regulated by the regulatory bodies in their respective countries. The non-bank financial institutions ("NBFIs") are regulated by the Namibian Financial Institutions Supervisory Authority ("Namfisa"). Capricorn Group is listed on the NSX, and BW's South African Rand-denominated bonds are listed on the Johannesburg Stock Exchange ("JSE").

Operating environment

Macro-economic

Namibia's economy was in recession from 2016 amid contractions in the mining, agriculture and construction sectors, and the knock-on effect of the political and economic challenges in South Africa, albeit with a slight improvement in 2018. Growth is expected to increase to 1.9% in 2019. Over the medium term, growth will be supported mainly by anticipated improvements in wholesale and retail trade, construction, and sustained growth in transport and communication. Furthermore, mining is expected to register growth during 2018 and 2019 supported by growth in uranium and diamond mining. Uncertainty about the weather can negatively affect the performance of the agriculture sector.

For Botswana, real GDP grew by 2.4% in 2017 compared to 4.3% in 2016, with the most significant impact from the contracting mining sector. The fiscal situation remains tight, with a budget deficit projected for the 2018/2019 financial year. In Zambia, the economic environment is largely stable and GDP growth projections for 2019 remain around 4.1%.

Financial Sector

The contracting economic environment has had a negative impact on the financial sector. The industry has seen an increase in credit risk but NPLs remain low. Profitability has decreased. Cost of funding has improved after an increase in the last 2 years but is still above the precious level. liquidity and improving margins between funding and lending rates. However, highly indebted households with weakening disposable incomes mean that household creditworthiness remains a prohibiting factor for a strong growth recovery. Banks are expected to remain profitable and well capitalised even in the adverse economic environment.

The Namibian financial sector is an oligopoly with only four banks accounting for over 99% of the industry by assets and revenue. The industry thus has high barriers to entry which result in stability in terms of revenue for the four main banks. The industry is also characterised by an inherent funding concentration due to the contractual nature of savings and very low discretionary savings in the market.

1 For a more detailed organisational profile of the Group, refer to past rating reports.

2 Given the non-banking subsidiaries' small contribution to consolidated assets, the analysis largely reflects the banking operations.

3 Given the intricacies associated with good corporate governance, GCR recommends an independent assessment to test compliance.

In Botswana, annual growth in commercial banks' credit continues to be constrained, which is exacerbated by higher rates of credit defaults. In Zambia, interest rates continued to decline in 2018, whereas lending rates remained elevated and lending was primarily directed at government, thereby constraining private sector growth. However, overall economic activity started picking up early in 2018 and the trend is expected to continue.

Competitive position

The Group has a strong competitive position especially in Namibia due to its established relationships and position as the second largest local bank by assets in Namibia. The Group's substantial market position within the Namibian economy and strong local shareholder base make it well positioned to take advantage of positive growth in infrastructure/other development within the domestic economy. The Group also benefits from diversification with a significant presence in the asset management and insurance markets, as well as geographic diversity from operations in Zambia and Botswana which, contribute a combined 18% to group consolidated assets. The acquisition of Entrepo a microlender also improves the groups diversification in terms of products offered.

Table 2: Peer market share (%)†	BW	FNB	SB	Nedbank
Total assets	29.8	31.1	24.6	14.5
Total customer loans	32.4	31.1	23.3	13.2
Total customer deposits	28.7	32.1	25.1	14.1

† Based on publicly available financial results for the year ended 30 June 2017 for BW and FNB and 31 December 2016 for SB and Nedbank.

Financial profile

Capital and leverage

The Group's capitalisation is adequate with a tier 1 to risk weighted assets ratio of 15.1% (FY17: 15.4%) and BW's at 14.4% (FY17: 13.4%) as at FY18, which is above the 10% minimum requirement. We expect the capitalisation levels of the Group to remain fairly strong with the total capital adequacy ratio expected to be in the range of 15%-17% as the Group's earnings stabilise supported by a recovery in the performance of the economy. We expect earnings to grow by 6-11% supported by more growth in non-interest income as BW seeks to grow its transaction-based income.

Table 3: Capitalisation	FY17 NADm	FY18 NADm
Tier 1 capital	5 405	5 838
Tier 2 capital	512	120
Total regulatory capital	**5 917**	**5 958**
Total risk weighted assets (RWA)	**35 207**	**38 730**
Key capital adequacy ratios (%)		
Total regulatory capital : RWA	**16.8**	**15.4**
Statutory requirement @ 12.5%		
Tier 1 capital : RWA	**15.4**	**15.1**
Statutory requirement @ 10%		
Tier 1 capital: Total assets (Leverage ratio)	**13.0**	**11.8**
Statutory requirement @ 6%		

Source: AFS.

Growth in earnings in FY18 was low with the profit after tax for the Group increasing by 1.8%. Overall, total operating income grew by 15% in FY18 (FY17: 9.8%). Net interest income grew by 10.3% in FY18 (FY17: 13.1%) supported an expanded loan book, partly offsetting a decline in net interest margin, from a rise in funding costs in Namibia due to tight market liquidity. We expect earnings to grow by 6-11% supported by more growth in non-interest income as BW seeks to grow its transaction-based income.

Non-interest income grew significantly by 22.7% in FY18 driven by growth in fees and commission from cards and electronic channels and other income. Non-interest income contributed a higher 40.2% of total operating income in FY18 (FY17: 37.7%), and covered 68.3% of operating costs (FY17: 71.6%). Operating expenditure grew by 28.7% in FY18 (FY17: 18.2%) driven by higher cost to income ratios in the Botswana and Zambia banking operations and ongoing investments in IT infrastructure and service offerings. The Group's staff costs made up 53.4% of operating expenses in FY18 (FY17: 51.8%). As a result, the Group's cost to income ratio increased to 60.6% in FY18 (FY17: 52.7%). Loan impairment charges amounted to 2.7% of operating income in FY18 (FY17: 2.2%).

Risk

The Group's risk position is adequate in comparison to peers. The loan portfolio is BW's dominant risk asset class contributing 76% of total assets at FY18 (FY17: 78%). Asset quality declined in FY18 and is expected to reach its peak in FY19 before stabilising and improving in the long term. The Group's impaired loans grew 65.2% in FY18 as a result of the adverse economic conditions and also the poor performance of the Zambian operations. Consequently, the gross non-performing loan ("NPL") ratio rose to 3.4% at FY18 (FY17: 2.2%) because of Cavmont bank in Zambia and Bank of Gaborone in Botswana which historically have higher NPLs, as it was the first year their results were fully consolidated into the Groups results. The impact of IFRS 9 and expected credit loss impairment requirements is expected to result in an increase of approximately NAD174.3m and NAD162.5m for Capricorn Group and BW in balance sheet impairments respectively; an increase of 76% and 73% over IAS 39 requirements respectively.

The quality of the loan book was affected across all sectors, but mortgages for both residential and commercial properties were the most affected by the economic downturn as NPLs increased by 66%. The increase in NPLs was also largely due to four well collateralised clients and therefore the mismatch between the NPL growth and impairment charge increases. Loss absorption capacity is also underpinned by strong pre-impairment operating profit. Loan write-offs amounted to NAD41m at FY18 (FY17: NAD64m). The bank has a long-term maturity profile which is indicative of the bank's large mortgage component, and real estate financing.

Table 4: Asset quality	FY17 NADm	FY18 NADm
Gross advances	**33 747**	**36 601**
Neither past due nor impaired	*32 335*	*34 756*
Past due but not impaired	*663*	*607*
Impaired	*749*	*1 238*
Less : Provisions	**(313)**	**(367)**
Raised against NPLs	*(158)*	*(258)*
Other	*(155)*	*(107)*
Net advances	**33 434**	**36 234**
Net NPLs	591	980
Collateral on NPLs	591	998
Write-offs	64	41
Post write-off recoveries	2.1	0.8
Key asset quality indicators (%)		
Gross NPL ratio	2.2	3.4
Net NPL ratio	1.8	2.7
Net NPLs/Total Capital (net specific provisions)	10.0	16.4
Credit loss ratio	0.2	0.2
Coverage ratio (specific provisions)	21.1	20.9
Coverage ratio (specific + collateral)	100.0	101.5

Source: AFS.

Table 5: Gross loans and advances	FY17 NADm	FY17 %	FY18 NADm	FY18 %
Overdrafts	5 402	16.0	5 462	16.0
Term loans	7 729	22.9	10 084	22.9
Mortgages	16 617	49.2	17 249	49.2
Residential	*9 515*	*28.2*	*10 113*	*27.6*
Commercial	*7 102*	*21.0*	*7136*	*19.6*
Instalment finance	3 557	10.5	3 362	10.6
Preference shares	442	1.3	445	1.3
Total	**33 747**	**100.0**	**36 601**	**100.0**

Source: AFS.

By obligor, the largest and top 20 exposures accounted for 2.1% (12.9% of regulatory capital) and 21.4% (132% of regulatory capital) of the total loan book respectively at FY18. The exposures were well within prudential guidelines, which limit exposures to a single borrower to 30% of capital.

Funding and liquidity

The Group's funding structure is considered somewhat stable as it is predominantly funded by customer deposits, accounting for 84% of total funding at FY18 (FY17: 85%) of which 68% (FY17: 71.4%) were wholesale deposits. Funding is augmented by medium/long-term borrowings raised from the debt capital market and development finance institutions ("DFIs"), which have served to diversify and lengthen the funding base.

The Group aims to develop the retail deposit base and diversify its wholesale funding sources. The single largest and top 20 largest depositors comprised 7.8% and 40.2% of total deposits at FY18 respectively. Funding concentration however is a system wide phenomenon in Namibia due to the contractual nature of savings and very low discretionary savings in the market.

The Group's liquidity position is considered to be adequate. The liquid assets to wholesale funding ratio is 1.61x. BW is exposed to portfolio concentration risk and stress tests show it may face liquidity challenges in the event of a liquidity shock as a result of its reliance on wholesale funding as deposits from wholesale banking clients are confidence sensitive. BW had an LCR and NSFR of 103% and 114% respectively

BW also maintains a liquidity buffer equal to at least 35% excess over liquid asset requirements and maintains a good relationship with other counterparties. Management aims to diversify funding sources and reduce structural volatility in the deposit book by extending tenor. Accordingly, term deposits, NCDs and debt funding have to some extent helped lengthen the maturity profile.

Support

Support has not been factored in the ratings, though the likelihood of support in case of need by the shareholder is high as displayed by the contribution to capital in support of the Group's growth trajectory. In addition, given BW's extensive market share and systemic importance, it is likely that government support would be forthcoming, should it be required.

Capricorn Investment Group Limited

(Namibian Dollars in millions except as noted)

Year end: 30 June	2014	2015	2016	2017	2018
Income Statement Analysis					
Interest income	1,945	2,425	2,963	3,626	4,244
Interest expense	(888)	(1,158)	(1,505)	(1,977)	(2,425)
Net interest income	**1,057**	**1,267**	**1,458**	**1,649**	**1,819**
Fees and commission	493	564	607	777	885
Trading income	47	96	143	101	99
Other income	139	152	204	120	241
Total operating income	**1,737**	**2,080**	**2,412**	**2,648**	**3,044**
Impairment charge	(29)	(58)	(61)	(58)	(81)
Operating expenditure	(915)	(1,042)	(1,180)	(1,395)	(1,795)
Income not attributable to operations (eg, share in associates/joint ventures)	85	88	99	79	84
Net profit before tax	**878**	**1,067**	**1,270**	**1,274**	**1,253**
Tax	(253)	(314)	(364)	(356)	(318)
Net profit after tax	**625**	**753**	**905**	**918**	**934**
Balance Sheet Analysis					
Subscribed capital	532	530	512	685	725
Reserves (incl. net income for the year)	2,562	3,113	3,762	4,372	4,890
Minority interest	-	-	-	155	276
Less: Goodwill	(49)	(49)	(49)	(71)	-
Total capital and reserves	**3,045**	**3,595**	**4,225**	**5,140**	**5,891**
Bank borrowings (incl. deposits, placements and REPOs)	283	130	447	318	253
Customer deposits	17,183	20,466	21,654	29,977	32,659
Other borrowings	221	279	497	575	507
Short-term funding (< 1 year)	**17,687**	**20,876**	**22,598**	**30,870**	**33,419**
Customer deposits	1,599	1,528	2,070	1,595	1,290
Other borrowings	1,620	2,182	2,882	4,695	5,583
Long-term funding (> 1 year)	**3,219**	**3,710**	**4,953**	**6,290**	**6,873**
Payables/Deferred liabilities	318	380	509	550	1,251
Other liabilities	**318**	**380**	**509**	**550**	**1,251**
Total capital and liabilities	**24,270**	**28,560**	**32,285**	**42,850**	**47,434**
Cash in hand	190	220	288	319	364
Balances with central bank	519	400	881	1,224	1,279
Fixed assets	130	154	158	233	238
Receivables/Deferred assets	318	499	557	772	1,001
Non-earnings assets	**1,157**	**1,273**	**1,885**	**2,548**	**2,882**
Loans and advances (net of provisions)	20,245	23,622	26,598	33,434	36,234
Bank placements	473	740	1,007	2,199	1,774
Marketable/Trading securities	2,105	2,587	2,408	4,268	6,120
Investments (listed/unlisted shares)	289	337	387	401	424
Total earning assets	**23,112**	**27,287**	**30,400**	**40,302**	**44,552**
Total assets	**24,270**	**28,560**	**32,285**	**42,850**	**47,434**
Contingencies	**3,162**	**4,272**	**4,179**	**3,359**	**3,410**
Ratio Analysis (%)					
Capitalisation					
Internal capital generation	20.2	20.7	21.2	18.1	16.6
Total capital/Net advances + net equity invest. + guarantees + letters of credit	14.0	13.8	14.7	14.6	15.5
Total capital/Total assets	12.5	12.6	13.1	12.0	12.4
Liquidity					
Net advances/Customer deposits	107.8	107.4	112.1	105.9	106.7
Net advances/Customer deposits + other short-term funding	105.0	105.4	107.8	103.0	104.4
Net advances/Total funding (excl. equity portion)	96.8	96.1	96.5	90.0	89.9
Liquid and trading assets/Total assets	12.7	13.0	13.4	17.1	18.7
Liquid and trading assets/Total short-term funding	17.4	17.7	19.1	23.8	26.5
Liquid and trading assets/Total funding (excl. equity portion)	14.7	15.1	15.7	19.7	22.0
Asset quality					
Non-performing loans/Gross advances	0.7	1.1	1.3	2.2	3.4
Total loan loss reserves/Gross advances	0.7	0.8	0.8	0.7	0.9
Bad debt charge (income statement)/Gross advances (avg.)	0.2	0.3	0.2	0.2	0.2
Bad debt charge (income statement)/Total operating income	1.7	2.8	2.5	2.2	2.7
Profitability					
Net interest margin	4.9	4.9	5.0	5.0	4.0
Interest income + com. fees / Earning assets + guarantees (a/avg.)	4.6	4.6	4.6	4.3	4.0
Non-interest income/Total operating income	39.1	39.1	39.5	37.7	40.2
Non-interest income/Total operating expenses (or burden ratio)	74.3	78.0	80.8	71.6	68.3
Cost ratio	52.7	50.1	48.9	52.7	60.6
ROaE	21.9	21.9	22.4	22.9	17.3
ROaA	2.8	2.8	2.8	3.0	2.1
Nominal growth indicators					
Total assets	15.9	17.7	13.0	32.7	10.5
Net advances	14.7	16.7	12.6	25.7	8.4
Shareholders funds	17.9	17.8	17.3	18.3	11.2
Total capital and reserves	16.2	18.0	17.5	21.6	14.6
Customer deposits	11.0	17.1	7.9	33.1	7.5
Total funding (excl. equity portion)	16.0	17.6	12.1	34.9	8.4
Net profit after tax	26.7	20.5	20.2	1.4	1.8

Bank Windhoek Limited

(Namibian Dollars in millions except as noted)

Year end: 30 June	2014	2015	2016	2017	2018
Income Statement Analysis					
Interest income	1,945	2,425	2,963	3,327	3,589
Interest expense	(897)	(1,163)	(1,512)	(1,840)	(2,079)
Net interest income	**1,048**	**1,262**	**1,451**	**1,487**	**1,510**
Fees and commission	493	564	608	719	2,125
Trading income	47	104	152	65	57
Other income	16	10	10	15	82
Total operating income	**1,604**	**1,940**	**2,221**	**2,286**	**3,774**
Impairment charge	(29)	(58)	(61)	(47)	(58)
Operating expenditure	(800)	(934)	(1,061)	(1,132)	(1,296)
Income not attributable to operations (eg, share in associates/joint ventures)	1	1	1	1	1
Net profit before tax	**777**	**949**	**1,100**	**1,109**	**2,421**
Tax	(244)	(293)	(337)	(333)	(298)
Net profit after tax	**532**	**656**	**763**	**775**	**2,123**
Balance Sheet Analysis					
Subscribed capital	485	485	485	485	485
Reserves (incl. net income for the year)	2,191	2,640	3,165	3,820	4,296
Total capital and reserves	**2,676**	**3,125**	**3,650**	**4,305**	**4,781**
Bank borrowings (incl. deposits, placements and REPOs)	283	130	447	141	63
Customer deposits	17,195	20,617	21,792	24,125	26,238
Other borrowings	220	128	497	604	814
Short-term funding (< 1 year)	**17,698**	**20,875**	**22,737**	**24,870**	**27,115**
Customer deposits	1,599	1,528	2,070	1,296	1,171
Other borrowings	1,470	2,182	2,857	3,592	3,942
Long-term funding (> 1 year)	**3,069**	**3,710**	**4,927**	**4,888**	**5,113**
Payables/Deferred liabilities	359	351	454	308	333
Other liabilities	**359**	**351**	**454**	**308**	**333**
Total capital and liabilities	**23,803**	**28,060**	**31,768**	**34,371**	**37,342**
Cash in hand	189	220	288	240	250
Balances with central bank	519	400	881	843	971
Fixed assets	127	152	155	171	173
Receivables/Deferred assets	262	457	461	493	501
Non-earnings assets	**1,098**	**1,229**	**1,785**	**1,747**	**1,896**
Loans and advances (net of provisions)	20,245	23,622	26,598	28,508	29,764
Bank placements	473	740	1,007	861	749
Marketable/Trading securities	1,907	2,364	2,239	3,100	4,792
Investments (listed/unlisted shares)	80	105	139	156	141
Total earning assets	**22,705**	**26,832**	**29,983**	**32,624**	**35,446**
Total assets	**23,803**	**28,060**	**31,768**	**34,371**	**37,342**
Contingencies	**3,162**	**4,272**	**4,179**	**3,129**	**3,017**
Ratio Analysis (%)					
Capitalisation					
Internal capital generation	19.9	21.0	20.9	18.0	16.7
Total capital/Net advances + net equity invest. + guarantees + letters of credit	12.4	12.3	13.0	14.4	15.4
Total capital/Total assets	11.2	11.1	11.5	12.5	12.8
Liquidity					
Net advances/Customer deposits	107.7	106.7	111.5	112.1	108.6
Net advances/Customer deposits + other short-term funding	104.9	105.4	107.2	109.0	105.2
Net advances/Total funding (excl. equity portion)	97.5	96.1	96.1	95.8	92.4
Liquid and trading assets/Total assets	12.1	12.4	13.1	13.8	17.3
Liquid and trading assets/Total short-term funding	16.3	16.7	18.3	19.1	23.9
Liquid and trading assets/Total funding (excl. equity portion)	13.9	14.2	15.0	16.0	20.1
Asset quality					
Non-performing loans/Gross advances	0.7	1.1	1.3	1.4	2.8
Total loan loss reserves/Gross advances	0.7	0.8	0.8	0.7	0.8
Bad debt charge (income statement)/Gross advances (avg.)	0.2	0.3	0.2	0.2	0.2
Bad debt charge (income statement)/Total operating income	1.8	3.0	2.7	2.0	2.4
Profitability					
Net interest margin	4.9	5.0	5.0	4.6	4.3
Interest income + com. fees / Earning assets + guarantees (a/avg.)	4.6	4.7	4.7	4.4	4.1
Non-interest income/Total operating income	34.7	34.9	34.7	35.0	38.3
Non-interest income/Total operating expenses (or burden ratio)	69.6	72.6	72.5	70.6	72.3
Cost ratio	49.8	48.1	47.8	49.5	53.0
ROaE	21.9	22.6	22.4	22.4	22.4
ROaA	2.4	2.5	2.8	2.8	2.8
Nominal growth indicators					
Total assets	15.3	17.9	13.2	8.2	8.6
Net advances	14.7	16.7	12.6	7.2	4.4
Shareholders funds	15.5	16.8	16.8	17.9	11.1
Total capital and reserves	15.5	16.8	16.8	17.9	11.1
Customer deposits	10.0	17.8	7.8	6.5	7.8
Total funding (excl. equity portion)	15.1	18.4	12.5	7.6	8.3
Net profit after tax	21.4	23.1	16.4	1.6	2.8

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S FINANCIAL INSTITUTIONS GLOSSARY

Asset Quality	Refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Basel	Basel Committee on Banking Supervision housed at the Bank for International Settlements.
Bond	A long term debt instrument issued by either: a company, institution or the government to raise funds.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its current liabilities and also in relation to the risks associated with its assets. An appropriate level of capital adequacy ensures that the entity has sufficient capital to support its activities and that its net worth is sufficient to absorb adverse changes in the value of its assets without becoming insolvent.
Collateral	Asset provided to a creditor as security for a loan.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and/or interest when due.
Demand Deposit	A deposit of funds that can be withdrawn without any advance notice, or "on demand".
Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer Grouping. Exposure may also arise from an overreliance on one source of funding.
Fair Value	The fair value of a security, an asset or a company is the rational view of its worth. It may be different from cost or market value.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Financial Statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time.
Zxc Fixed Deposit	Where funds are deposited in a savings account for a pre-determined period of time.
Goodwill	Arises upon the sale/acquisition of a business and is defined as an established entity's reputation, which may be regarded as a quantifiable asset and calculated as the price paid for a company over and above the net value of its assets. Negative goodwill refers to a situation when the price paid for a company is lower than the value of its assets.
Guarantee	An undertaking in writing by one person (the guarantor) given to another, usually a bank (the creditor) to be answerable for the debt of a third person (the debtor) to the creditor, upon default of the debtor.
Haircut	The percentage by which the market value of a security used as collateral for a loan is reduced. The size of the haircut reflects the expected ease of selling the security and the likely reduction necessary to realised value relative to the fair value.
Impairment	Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Joint Venture	A project or other business activity in which two persons or companies partner together to conduct the project.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
Long-Term	Not current; ordinarily more than one year.
Long-Term Rating	Reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
National Scale Rating	Provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
Off Balance Sheet	Off balance sheet items are assets or liabilities that are not shown on a company's balance sheet. They are usually referred to in the notes to a company's accounts.
Overdraft	When the amount of money withdrawn from a bank account is greater than the amount actually available in the account, the excess is known as an overdraft, and the account is said to be overdrawn.
Past Due	Any note or other time instrument of indebtedness that has not been paid on the due date.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rating Outlook	Indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or 'Evolving' (the rating symbol may be raised or lowered).
Regulatory Capital	The total of primary, secondary and tertiary capital.
Risk Management Process	The systematic application of management policies, procedures and practices to the tasks of risk identification, assessment and measurement, response and action, monitoring and review, and risk reporting.
Securitisation	A process of repackaging portfolios of cash-flow producing financial instruments into securities for sale to third parties.
Short-Term	Current; ordinarily less than one year.
Short-Term Rating	An opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.
Subordinated Debt	Debt that in the event of a default is repaid only after senior obligations have been repaid. It is higher risk than senior debt.
Systemic Risk	Risk associated with the general health or structure of the financial system which would have serious adverse effects on economic conditions or financial stability.
Term Deposit	A savings account held for a fixed term. Also called a time deposit. Generally, there are penalties for early withdrawal.
Treasury Bill	Short-term obligation backed by the government that bears no interest and is sold at a discount.

For a detailed glossary of terms please click here

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

Capricorn Investment Group Limited and Bank Windhoek Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to Capricorn Investment Group Limited and Bank Windhoek Limited.

Information received:

- Audited financial results of the Group and the banking subsidiary as at 30 June 2018 (plus four years of comparative figures)
- Budgeted financial statements for 2019
- Latest internal and/or external audit report to management
- Reserving methodologies
- A breakdown of facilities available and related counterparties
- Corporate governance and enterprise risk management framework
- Industry comparative and regulatory framework

The ratings above were solicited by, or on behalf of, Capricorn Investment Group Limited and Bank Windhoek Limited, and therefore, GCR has been compensated for the provision of the ratings.