Capricorn Group

6.4% Profit after tax growth

14.4% Net asset value per share growth

15.0% Capital adequacy

30 cents Dividend per share

REVIEWED CONSOLIDATED INTERIM GROUP RESULTS
for the six months ended 31 December 2017

According to the Namibia Statistics Agency (NSA) the Namibian economy remained in the grip of a recession during the second half of 2017. The NSA estimates that real GDP contracted by 1.9 % year-on-year in the third quarter of this year, following year-on-year contractions of 2.1 % and 0.7 % in Q1 and Q2, respectively. The expectation is that the trend has improved slightly during the last quarter of 2017. The contracting economy saw growth in credit extended to corporates slowing to 1.3 % in November 2017, negatively impacting the Namibian banking sector.

The operating environment in Botswana also remained challenging, with a 50 bps decrease in the repo rate in October to 5 % resulting in a decrease in market liquidity as investors search for higher yielding assets in other markets. The reduction in bank lending rates combined with the increased cost of funding caused by the tightening liquidity resulted in a further contraction in banks' interest margins.

Although still challenging, the Zambian economic environment improved during the period under review thanks to currency stability, the reduction in the inflation rate, the improved copper price and a reduction by the Bank of Zambia of its bank rate as well as the statutory reserve ratio. These factors all contributed to increased market activity and a reduction in both lending rates and cost of funding.

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

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

- prior period results have been adjusted to include the results, assets and liabilities of the Botswana and Zambia subsidiaries as if they were acquired at the beginning of the prior reporting period; and
- capital profit on the partial sale of the Visa Inc. shareholding in line with the group strategy to realise non-core investments, has been excluded from the December 2017 results.

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

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

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

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

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

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

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

Loans and advances
Normalised loans and advances increased by 7.7 % to N$34.1 billion (Dec 2016: N$31.7 billion). The modest growth is mainly due to subdued demand in both Namibia and Botswana, as well as the focused restructuring of the BW balance sheet to increase liquid assets and improve the group's loans to funding ratio. Non-performing loans as a percentage of gross advances weakened from 2.02 % normalised to 2.96 %, mainly as a result of a substantial increase in the value of non-performing loans at BW. This increase was mainly due to four large, but well secured, loans classified as non-performing during the period under review. Due to the substantial value and quality of the collateral held as security against these large exposures, potential losses are limited. For this reason, the bad and doubtful debt provisions did not increase in line with the increase in non-performing loans.

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

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

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

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

Reviewed results – auditor's review conclusion
The condensed consolidated interim financial statements for the six months ended 31 December 2017, from which this information is derived, have been reviewed by PricewaterhouseCoopers, who expressed an unmodified review conclusion thereon. The review was conducted in accordance with ISRE 2410 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'. A copy of the auditor's review report is available for inspection at the company's registered office together with the condensed consolidated interim financial statements referred to in the auditor's review report.

Basis of presentation
The reviewed condensed consolidated interim financial statements of Capricorn Investment Group Ltd for the six months ended 31 December 2017 from which this information is derived, have been prepared in accordance with International Accounting Standards (IAS) 34: 'Interim Financial Reporting' and the requirements of the Companies Act of Namibia. This results announcement is the responsibility of the directors, and is extracted from the reviewed condensed consolidated interim financial statements, but is not itself reviewed or audited. The group's principal accounting policies comply with IFRS and have been applied consistently in all material aspects with the previous financial years.

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

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

NORMALISED[1] YEAR-ON-YEAR MOVEMENT
for the period ended 31 December 2017

	Six months ended		Variance	
	31 Dec 2017 (normalised[1]) N$'000	31 Dec 2016 (normalised[1]) N$'000	N$'000	%
Net interest income after loan impairment charges	857,270	855,577	1,693	0.2 %
Non-interest income	545,430	536,012	9,418	1.8 %
Operating income	1,402,700	1,391,588	11,112	0.8 %
Operating expenses	(840,712)	(753,380)	(87,332)	11.6 %
Operating profit	561,988	638,209	(76,221)	-11.9 %
Profit before income tax	615,389	675,297	(59,908)	-8.9 %
Profit for the period	444,124	480,814	(36,690)	-7.6 %

[1] Dec 17 excludes profit on sale of Visa Inc. shares; Dec 16 includes the results of CIHB and CCHZ

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the period ended 31 December 2017

	Six months ended	
	31 Dec 2017 (reviewed) N$'000	31 Dec 2016 (reviewed) N$'000
Interest and similar income	2,108,766	1,636,597
Interest and similar expenses	(1,212,034)	(886,718)
Net interest income	896,732	749,879
Impairment charges on loans and advances	(39,462)	(26,481)
Net interest income after loan impairment charges	857,270	723,398
Non-interest income	588,078	466,531
Operating income	1,445,348	1,189,929
Operating expenses	(840,712)	(582,732)
Operating profit	604,636	607,197
Share of joint arrangement's results after tax	2,016	303
Share of associates' results after tax	51,385	36,785
Profit before income tax	658,037	644,285
Income tax expense	(171,265)	(186,946)
Profit for the period	486,772	457,339
Other comprehensive income		
Items that may subsequently be reclassified to profit or loss		
Change in value of available-for-sale financial assets	23,416	(3,783)
Exchange differences on translation of foreign operations	(27,288)	-
Total comprehensive income for the period	**482,900**	**453,556**
Ordinary shares in issue ('000) [2]	509,953	498,346
Weighted average no. of ordinary shares in issue ('000) [2]	509,953	498,346
Diluted weighted average no. of ordinary shares in issue ('000) [2]	511,151	499,504
Basic earnings per share (cents)	93.6	91.8
Diluted earnings per share (cents)	93.4	91.6
Basic headline earnings per share (cents)	85.3	92.5
Diluted headline earnings per share (cents)	85.1	92.2
Dividend per ordinary share (cents)	30.0	30.0

[2] Adjusted for treasury shares.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2017

	31 Dec 2017 (reviewed) N$'000	31 Dec 2016 (reviewed) N$'000
ASSETS		
Cash and balances with the central bank	1,783,114	1,369,359
Financial assets designated at fair value through profit or loss	4,299,419	2,605,012
Financial assets measured at amortised cost	853,651	-
Investment securities	129.385	130,215
Due from other banks	1,979,921	268,434
Loans and advances to customers	34,094,895	27,121,963
Other assets	482,761	103,383
Current tax asset	69,419	62,593
Investment in associates	312,060	268,309
Interest in joint arrangements	8,208	5,402
Intangible assets	296,989	228,483
Property, plant and equipment	207,690	157,555
Deferred tax asset	20,048	1,082
Total assets	**44,537,560**	**32,321,790**
LIABILITIES		
Due to other banks	261,281	213,161
Other borrowings	1,388,386	1,164,546
Debt securities in issue	4,270,910	2,601,406
Deposits	32,750,037	23,569,287
Other liabilities	390,616	216,982
Current tax liability	1,973	9,448
Deferred tax liability	3,881	6,711
Post-employment benefits	10,556	9,825
Total liabilities	**39,077,640**	**27,791,366**
EQUITY		
Share capital and premium	683,508	490,780
Non-distributable reserves	249,556	208,134
Distributable reserves	4,368,800	3,831,510
	5,301,864	4,530,424
Non-controlling interests	158,056	-
Total shareholders' equity	**5,459,920**	**4,530,424**
Total equity and liabilities	**44,537,560**	**32,321,790**
Net asset value per share (cents)	1,040	909

Capricorn Investment Group Limited
(Incorporated in the Republic of Namibia)
(Registration Number: 96/300)
Share code: CGP ISIN: NA000A1T6SV9
("Capricorn Group" or "the group")

By order of the Board

H von Ludwiger
Company Secretary
Windhoek, 20 February 2018

Directors: J J Swanepoel (Chairman), M J Prinsloo, D G Fourie, K B Black, J C Brandt, D J Reyneke, E Schimming-Chase, G N Sekandi, J M Shaetonhodi, M K Shikongo

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Sponsor:
PSG Wealth Management (Namibia) (Pty) Limited Member of the Namibian Stock Exchange