

### CREDIT RATING ANNOUNCEMENT

## Bank Windhoek and Capricorn Group National Scale Ratings Affirmed on Resilient Earnings and Solid Asset quality; Outlook Stable

### Rating action

Johannesburg, 27 September 2023 - GCR Ratings (GCR) has affirmed the Namibian long and short-term issuer ratings of Bank Windhoek Limited at AA<sub>(NA)</sub>/A1<sub>(NA)</sub>. At the same time, the South African national scale long-term issuer rating of the bank has been affirmed at A<sub>(ZA)</sub>. The outlooks are Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Bank Windhoek Limited	Long Term Issuer	National	AA <sub>(NA)</sub>	Stable Outlook
	Long Term Issuer	National	A <sub>(ZA)</sub>	Stable Outlook
	Short Term Issuer	National	A1 <sub>(NA)</sub>	--

Simultaneously, Capricorn Group Limited's Namibian long and short-term issuer ratings have been affirmed at AA<sub>(NA)</sub>/A1<sub>(NA)</sub>, with the outlook accorded as Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Capricorn Group Limited	Long Term Issuer	National	AA <sub>(NA)</sub>	Stable Outlook
	Short Term Issuer	National	A1 <sub>(NA)</sub>	

### Rating rationale

Bank Windhoek Limited ('BW') ratings reflect the credit profile of Capricorn Group Limited ('Capricorn' or 'the group'), as it's the core operation of the group. BW's contribution to group net profit after tax (FY23: 76%) and assets are significant and GCR views it to be the group's core operating entity and flagship brand. As such, the ratings of BW are equalised to the group Anchor Credit Evaluation (ACE).

The ratings of Capricorn Group Limited are a notch lower than the group ACE, reflecting the structurally subordinated status of Non-Operating Holding Companies (NOHC). This reflects GCR's opinion that the NOHC is reliant on cash flows and dividends from largely regulated, operating group companies, which could be interrupted by regulators should there be a stress event.

The group credit profile benefits from its strong franchise, robust domestic position, and excellent diversification. The group's total profit from its Namibia operations were 93%, whilst 76% were from Bank Windhoek, which had a 35.2% market share in domestic loans at 30<sup>th</sup> June 2023. Capricorn Asset Management contributed 5% to the group profits which is the largest asset manager in Namibia with N\$38.6 billion of assets under management (AUM) and the Unit Trust business has a 33.7% market share. 8% of group profits originate from Entrepo, which is a deduction at source lender for government employees. 4% of group profits derived from associates, largely the minority stakes in the largest Namibian Insurers, Sanlam & Santam, and Paratus Group, a telecommunications infrastructure company. Another 7% of total profits come from

Botswana, predominantly via Bank Gaborone, which had a 7.5% market share in loans as of 30<sup>th</sup> June 2023. There is also a small microlender named Peo Finance, which is in the first full year of operations.

The revenue stability of the group has been good, with average growth of around 10% over the past six years. Revenues are derived from net interest income (59% of operating revenues), and non-interest income from fees & commissions (32%), trading income (4%) and insurance income (3%).

Management & Governance is a neutral (best) factor, in line with best practice for our rated peers. Environmental and social considerations are having a greater impact on decision making across the group.

At 30 June 2023, the GCR total capital ratio improved to around 13.8% from 13.3% at 30 June 2022, as internal capital generation continued to outstrip risk weighted asset growth. We expect the ratio to remain broadly stable over the next couple of years, balancing loan growth of around 7% to 8%, stable net interest margins, fee and commission growth of around 7% to 8%, cost to income of around 53.0%, cost of risk stable at around 0.5% and return on assets of around 2.0%.

The risk position is a positive ratings factor. Over the past seven years credit losses averaged around 0.6% of total loans, but have continued to improve to 0.5% at 30 June 2023 from 1.1% at 30 June 2021. Despite challenging macroeconomic conditions and higher interest rates, Bank Windhoek's gross non-performing loans (including interest in suspense) improved to 5.2% at 30 June 2023 from 5.8% at 30 June 2021. Conversely, stage 2 loans increased to 6.2% of total loans from 2% of total loans over the same period. Loan loss reserve coverage of non-performing loans continued to improve to 72% from 58%, again over the same period.

The loan book is well diversified, with real estate accounting for 28%, individuals and trade & accommodation both accounting for 13% and agriculture at 10% of total loans. Foreign currency lending is low, at around 2.5% of total loans. The top twenty loans accounted for 21.2% of total loans at 30 June 2023, with a good mix across industries.

Funding and liquidity is a neutral assessment. The funding profile of the group remains dominated by funds from financial institutions, which is common amongst the large banks in Namibia due to the dominance of asset managers in contractual savings. The top twenty funders contributed 39.1% of total funding at 30 June 2023. Despite a 300 basis points increase in the repo rate and a 350 basis points increase in the three-month JIBAR rate, the average cost of funding increased by just 203 basis points as the bank focused on growing less expensive current account and demand deposits funding quicker than longer-term funds. Liquidity remains relatively strong, with liquid assets covering 4x short-term wholesale, 2x wholesale funding and 30% of total deposits.

## Outlook statement

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The outlooks are stable. The bank is expected to continue performing well, especially as the strong macro-winds moderate. We don't anticipate any change in the competitive positioning or structure of the group. We think earnings could improve, but not materially from the already robust levels. Capital is expected to remain within the 13.5% - 14.5% range, as asset growth balances profitability. Asset quality is expected to remain stable as the macro and interest rate cycles play out. The asset management and insurance arms could face some growth pressures as disposable income remains restrained, but we think it will continue inflation plus growth.

## Rating triggers

The ratings are not expected to move over the outlook horizon. However, should capital and risk continue a long-term positive path we could raise the ratings. Increased market positioning and scale of the Botswana banking subsidiary could also have a positive impact. Uniquely for the South African national scale rating, an improvement in the Namibian country and sector risk score would also improve the rating.

A negative rating action could follow an unanticipated deterioration in the capital or risk position of the group.

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## Related criteria and research

Criteria for the GCR Ratings Framework, January 2022  
Criteria for Rating Financial Institutions, May 2019  
GCR Ratings Scale, Symbols & Definitions, May 2023  
GCR Country Risk Scores, August 2023  
GCR Financial Institutions Sector Risk Score, June 2023

## Ratings history

### Bank Windhoek Limited (Namibian Scale)

Rating class	Review	Rating scale	Rating	Outlook / Watch	Date
Long Term Issuer	Initial	National	AA <sub>(NA)</sub>	Stable	September 2005
	Last	National	AA <sub>(NA)</sub>	Stable	September 2022
Short Term Issuer	Initial	National	A1+ <sub>(NA)</sub>	N/a	September 2005
	Last	National	A1+ <sub>(NA)</sub>	N/a	September 2022

### Bank Windhoek Limited (South African Scale)

Rating class	Review	Rating scale	Rating	Outlook / Watch	Date
Long Term Issuer	Initial	National	A <sub>(ZA)</sub>	Stable	November 2013
	Last	National	A <sub>(ZA)</sub>	Stable	September 2022

### Capricorn Group Limited

Rating class	Review	Rating scale	Rating	Outlook / Watch	Date
Long Term Issuer	Initial	National	AA <sub>(NA)</sub>	Stable	November 2015
	Last	National	AA <sub>(NA)</sub>	Stable	September 2022
Short Term Issuer	Initial	National	A1+ <sub>(NA)</sub>	N/a	November 2015
	Last	National	A1+ <sub>(NA)</sub>	N/a	September 2022

## Risk score summary

Rating Components & Factors	Risk scores
<b>Operating environment</b>	<b>11.75</b>
Country risk score	5.75
Sector risk score	6.00
<b>Business profile</b>	<b>1.25</b>
Competitive position	1.25
Management and governance	0.00
<b>Financial profile</b>	<b>0.50</b>
Capital and Leverage	(0.25)
Risk	0.75
Funding and Liquidity	0.00
<b>Comparative profile</b>	<b>0.00</b>
Group support	0.00
Government support	0.00
Peer analysis	0.00
<b>Total Score</b>	<b>13.50</b>

## Glossary

Accounting	A process of recording, summarising, and allocating all items of income and expense of the company and analysing, verifying and reporting the results.
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.
Asset/s	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Basis Point	1/100th of a percentage point.
Benefits	Financial reimbursement and other services provided to insureds by insurers under the terms of an insurance contract.
Capital	The sum of money that is invested to generate proceeds.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Commission	A certain percentage of premiums produced that is received or paid out as compensation by an insurer.
Conditions	Provisions inserted in an insurance contract that qualify or place limitations on the insurer's promise to perform.
Contract	An agreement by which an insurer agrees, for a consideration, to provide benefits, reimburse losses or provide services for an insured. A 'policy' is the written statement of the terms of the contract.
Coverage	The scope of the protection provided under a contract of insurance.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
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 exposures 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.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).

Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Income	Money received, especially on a regular basis, for work or through investments.
Insurance	Provides protection against a possible eventuality.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Lender	A credit provider that is owed debt obligations by a debtor.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
National Scale Rating	National scale ratings measure creditworthiness relative to issuers and issues within one country.
Net Interest Margin	Net interest income divided by average interest earning assets. Measures a bank's margin after paying funding sources and how successful a bank's interest-related operations are.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account such as interest, tax, depreciation, auditors' fees and directors' fees.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Performing	An obligation that performs according to its contractual obligations.
Real Estate	Property that consists of land and / or buildings.
Reserve	(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Short Term	Current; ordinarily less than one year.
Total Capital	The sum of owner's equity and admissible supplementary capital.
Trust	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Weighted	The weight that a single obligation has in relation to the aggregated pool of obligations. For example, a single mortgage principal balance divided by the aggregated mortgage pool principal balance

### Salient points of accorded rating

GCR affirms that a.) no part of the rating process 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.

The credit ratings have been disclosed to the rated entity.

The ratings above were solicited by, or on behalf of, the rated entity/group, and therefore, GCR has been compensated for the provision of the ratings.

The rated entity/group participated in the rating process via virtual management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the group and other reliable third parties to accord the credit ratings included:

- Audited financial results as at 30<sup>th</sup> June 2023;
- Breakdown of loan book and funding as at June 2023;
- Industry comparative data.

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