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CREDIT RATING ANNOUNCEMENT

GCR affirms Capricorn Investment Group Limited's and Bank Windhoek Limited's ratings of AA_(NA); Outlook Stable

Johannesburg, 29 Nov 2017 - Global Credit Ratings has affirmed the national scale ratings assigned to Capricorn Investment Group Limited of AA_(NA) and A1+_(NA) in the long term and short term respectively; with the outlook accorded as Stable. Global Credit Ratings has also affirmed the national scale ratings assigned to Bank Windhoek Limited of AA_(NA) and A1+_(NA) in the long term and short term respectively; with the outlook accorded as Stable. Furthermore, Global Credit Ratings has affirmed the long term South African national scale (Rand) issuer rating of A+_(ZA) assigned to Bank Windhoek Limited; with the outlook accorded as Stable.

SUMMARY RATINGS RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit ratings to Capricorn Investment Group Limited ("Capricorn Group", "the Group") and Bank Windhoek Limited ("BW") based on the following key criteria:

The accorded ratings reflect Capricorn Group's strong domestic market share in the Namibian banking industry and significant presence in the asset management and insurance markets. The ratings also reflect Capricorn Group's risk appropriate capitalisation, comfortable liquidity, resilient earnings performance, as well as further earnings and geographic diversity from recent acquisitions (January 2017) of banking operations in Zambia and Botswana, contributing a combined 17.9% to group consolidated assets at FY17 (30 June 2017) and 3.8% of pre-tax profits. While GCR expects the Group to remain resilient, the prevailing economic challenges (including weak growth prospects in Namibia) and an uncertain global economic outlook, will continue to put pressure on Capricorn Group's (and the financial sector in general) earnings and asset quality metrics. The South African national scale rating may also be influenced by the relative sovereign ratings of South Africa and Namibia and the Group's credit quality relative to the South African peer universe.

Further underpinning the ratings is the potential support from the Group's largest shareholders Capricorn Investment Holdings Limited ("CIH") with a 40.7% stake and Government Institutions Pension Fund ("GIPF") with 26% shareholding. GIPF, the largest institutional investor in Namibia with a net asset value of about NAD100bn, acquired 25% of the Group's shares in May 2017. The GIPF, together with CIH, became shareholders of reference for the Group. GIPF has shown its commitment as Capricorn Group's reference shareholder by extending long term senior debt funding of NAD1.3bn to the Group. Likewise, CIH also committed to provide 10-year debt funding amounting to NAD900m. The funding lines enabled the Group to make available committed contingent funding facilities (NAD1bn) to its three operating banks, significantly mitigating liquidity risk within the Group. GCR believes that timely financial support would be provided by GIPF and CIH in their role as reference shareholders, or ultimately by the Bank of Namibia due to BW's status as a systemically important financial institution.

The Group's leading operating subsidiary, BW, is the largest locally owned bank and second largest commercial bank in Namibia. BW contributed a lower 80.1% of the Group's consolidated assets at FY17 (FY16: 98.2%) and a marginally higher 87.0% (FY16: 86.6%) of pre-tax profit following recent acquisitions. Other non-banking subsidiaries (offering asset management, unit trust management products and services, property development and long and short term insurance) contributed 2.0% of consolidated assets and 10.6% of pre-tax at FY17. While the Group's ratings have largely replicated BW's ratings, GCR has taken cognisance of added diversification benefits from recent acquisitions at Group level.

Capricorn Group reported a total risk weighted capital adequacy ratio of 16.8% at FY17 (FY16: 15.8%) and Tier 1 risk based capital ratio of 15.4% (FY16: 14.3%), which were well above the regulatory minima of 10% and 7% respectively, providing a sufficient buffer to absorb credit losses.

The Group's gross non-performing loan ("NPL") ratio rose to 2.2% at FY17 (FY16: 1.3%) mainly due to acquired loan books. Unreserved NPLs relative to regulatory capital remained low at 10% at FY17 (FY16: 5.6%).

Pre-tax profit grew by a modest 0.3% in FY17 (FY16: 19.0%), on the back of a challenging economic climate. Key profitability indicators remained sound with the Group reporting a ROaE and ROaA of 19.5% (FY16: 22.9%) and 2.4% (FY16: 3.0%) in FY17 respectively.

Strong liquidity and loss-absorption buffers and steady financial metrics throughout the economic cycle, as well as further enhancement of geographic and earnings diversification benefits, would be positively considered. A sharp deterioration in the capital position, liquidity, earnings and asset quality, could see the ratings come under pressure.



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NATIONAL SCALE RATINGS HISTORY

Capricorn Investment Group Limited

Initial rating (November 2015)

Long term: AA_(NA); Short term: A1+_(NA)

Outlook: Stable

Last rating (November 2016)

Long term: AA_(NA); Short term: A1+_(NA)

Outlook: Stable

Bank Windhoek Limited

Initial rating (September 2005)

Long term: AA_(NA); Short term: A1+_(NA)

Outlook: Stable

Last rating (November 2016)

Long term: AA_(NA); Short term: A1+_(NA)

Outlook: Stable

ANALYTICAL CONTACTS

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SOUTH AFRICAN NATIONAL SCALE RATINGS HISTORY

Initial rating (November 2013)

Long term: A_{-(ZA)}

Outlook: Stable

Last rating (November 2016)

Long term: A_{+(ZA)}

Outlook: Stable

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Criteria for Rating Banks and Other Financial Institutions (March 2017)

BW rating reports (2005-16)

Capricorn Group rating report (2015-16)

RATING LIMITATIONS AND DISCLAIMERS

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SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

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 with no contestation of the ratings.

Information received:

- Audited financial results of the Group and the banking subsidiary as at 30 June 2017 (plus four years of comparative figures)
- Budgeted financial statements for 2018
- Latest internal and/or external audit report to management
- Reserving methodologies
- A breakdown of facilities available and related counterparties

- Corporate governance and enterprise risk 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.

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

Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
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.
Capital	The sum of money that is invested to generate proceeds.
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.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
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.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
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.
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.
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.
Margin	The rate taken by the lender over the cost of funds, which effectively represents the entity's profit and remuneration for taking the risk of the loan; also known as spread.
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.
Net Asset Value	The value of an entity's assets less its liabilities. It is a reflection of the company's underlying value and is usually quoted on a per share basis.
Regulatory Capital	The total of primary, secondary and tertiary capital.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
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.

For a detailed glossary of terms please click [here](#)

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