



## Credit Rating Announcement

GCR reviews the ratings of Bank Windhoek Limited and Capricorn Investment Group Limited under the new criteria

### Rating Action

Johannesburg, 14 October 2019 - GCR Ratings ('GCR') has reviewed the ratings of Bank Windhoek Limited and Capricorn Investment Group limited ("the group") under the recently released Criteria for Rating Financial Institutions, May 2019.

Bank Windhoek Limited's long and short-term Namibian national scale ratings have been affirmed at AA<sub>(NA)</sub>/A1<sub>(NA)</sub>, with a stable outlook. At the same time, the long-term South African national scale rating has been affirmed at A<sub>(ZA)</sub>, with a stable outlook.

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

Capricorn Investment Group Limited's short-term Namibian national scale rating has been affirmed at A1<sub>(NA)</sub>. Its long-term Namibian national scale rating has been revised to AA<sub>(NA)</sub>, from AA<sub>(NA)</sub>, solely as a result of a criteria change, which reflects structural subordination in the ratings of non-operating holding companies ('NOHC'). The outlook is stable.

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

On May 22, 2019 GCR announced that it had released new criteria for all banks and bank-like entities. This methodology is titled Criteria for Rating Financial Institutions. As a result, the ratings were placed "Under Criteria Observation". Subsequently, GCR has finalised the review under the new methodology. As a result, the ratings have been removed from 'Under Criteria Observation'.

### Rating Rationale

The ratings factor in the following core elements of Namibian country and financial institutions sector risk into their assessments.

#### Republic of Namibia, Country Risk Score: 5.75, Mapping table 5.5 to 6

The Namibian country risk score of '5.75', is supported by above average wealth levels and institutional strengths of the country in comparison to regional peers. The scores are restrained by the weak economic performance, limited monetary policy flexibility and mounting government fiscal pressures (government debt, as a percentage of GDP, is

expected to double between 2015 and 2022). In July 2019, the Namibian Central Bank reduced its expectations of economic growth for the year, now expecting the economy to contract by 1.7% in 2019. Primary industries and construction, in particular, are facing severe headwinds.

### **Namibian financial Institutions Sector Risk Score: 6.5**

The Namibian financial institutions sector risk score of '6.5' is supported by the oligopolistic structure of the banks, with the top four banks controlling around 90% of total assets. Furthermore, the banks are generally considered to be well managed, transparent and have consistently demonstrated adequate levels of capitalisation, low foreign currency exposure and good levels of profitability. Nevertheless, there are clear weaknesses in the sector including rising non-performing loans (up to 3.6% at Dec, 2018 from 2.5% a year earlier), caused by the currently weak economy and high amounts of private sector indebtedness. We also see some structural weaknesses in the funding base of the system, due to the significant concentrations from the large institutional investors.

### **Bank Windhoek Ltd and Capricorn Investment Group Limited**

The Namibian national scale ratings and the South African national scale ratings on Bank Windhoek and Capricorn Investment Group Limited reflect the strengths and weaknesses of the Capricorn Group, one of the largest financial services groups in Namibia. The ratings balance the group's strong competitive position, given the positive diversification in terms of business lines and to a lesser extent geography, a strong risk position, intermediate levels of capitalisation supported by good earnings, and funding and liquidity profile that is in line with peers.

Capricorn Group is one of the biggest financial services groups in Namibia with a strong franchise with its main subsidiary, Bank Windhoek being the second largest bank in the market by assets (34.3%) and deposits (31.2%) and the largest in terms of the lending with a 32.4% market share. The group operates predominantly in Namibia (93% of total group assets with other banking operations in Botswana and Zambia. The group has considerable diversification in terms of its product offering with the banks (Bank Windhoek, Bank Gaborone, and Cavmont Bank), asset management (Capricorn Asset Management), Capricorn Capital, Insurance (29.5% in Sanlam and 28% in Santam), IT infrastructure (Nimbus Infrastructure,) and term lending (Entrepo Holdings). The group's revenue generation has been fairly stable over the past 5 years and our forecasts point to sustained steady growth in earnings (7%) in the next 12 months.

The group's capitalisation is a restraint on the ratings, with a GCR capital ratio of 13% which is at the lower end of our intermediate range. We expect the GCR capital ratio to remain within the 13-14% range in the next 12 months supported by robust earnings, with return on assets expected to be between 2- 2.3%, reflecting growth in non-interest income and better efficiency.

The risk position is strong, supported by a cost of risk average around 0.2%, over the past 3 years. However, the groups asset quality is starting to reflect some of the sustained economic pressures. Over the last 12 months there has been a 60% increase in nominal non-performing loans, which was driven by the deterioration of a limited number of large well secured loans, within Bank Windhoek. This has led to an increase in the NPL ratio to 4.1% at June 2019 from 3.3% at June 2018. Over 2018, the impairment provisions also increased by 156%, reflecting the adoption of IFRS 9 and the increased impairments. At June 2019, the impairment coverage ratio increased to 2% of total loans and 47% of non-performing loans, which we still consider to be moderate in comparison to rated peers, despite the high levels of collateral. Positively, loan book concentrations are low, with top 10 loans accounting for 16% of total loans.

The funding and liquidity position of the group, is in line with peers and is a neutral rating factor. The group's funding structure remains stable with a GCR stable funding ratio of 94%. Total funding increased by 8.5% which was mainly driven by growth in demand deposits, NCDs and senior debt. The group's loan to funding ratio improved to 90.1%.

Deposits are augmented by medium/long-term borrowings raised from the debt capital market and DFIs, which have served to diversify and lengthen the funding base. Concentration is low with the top 20 deposits making up 30% of total deposits. With liquid assets covering 1.25x wholesale and 25% of customer deposits, we consider liquidity to be adequate.

The ratings of Bank Windhoek are equalised to the ACE of the Capricorn Group, due to its very high contribution to group revenues and assets, being the flagship entity within the group. The ratings on Capricorn Investment Group Ltd are a notch lower than the group ACE, reflecting the structurally subordinated status of non-operating holding companies. 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.

## Rating Outlook

The outlook is stable, balancing the stressed operating environment, which could adversely affect asset quality, profitability and growth with the currently strong levels of earnings and credit losses.

## Rating Triggers

We see limited upside in the ratings over the next 12-18 months. However, the Namibian & South Africa national scale ratings could be lowered if asset quality deteriorates and it places additional pressure on reserving, profitability and ultimate capital. The South African scale ratings could also be negatively affected if there is any deterioration in the Namibia country risk.

## Analytical Contacts

<b>Primary analyst</b> Johannesburg, ZA	Victor Matsilele VictorM@GCRratings.com	Financial Institutions Associate +27 11 784 1771
<b>Committee chair</b> Johannesburg, ZA	Matthew Pirnie MatthewP@GCRratings.com	Sector Head: Financial Institutions +27 11 784 1771

## Related Criteria and Research

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

## Ratings History

### Bank Windhoek Limited (Namibian Scale)

Rating class	Review	Rating scale	Rating class	Outlook	Date
Issuer Long Term	Initial	National	AA <sub>(NA)</sub>	Stable	September 2005
	Last	National	AA <sub>(NA)</sub>	Stable	November 2018
Issuer Short Term	Initial	National	A1+ <sub>(NA)</sub>	Stable	November 2015
	Last	National	A1+ <sub>(NA)</sub>	Stable	November 2018

### Bank Windhoek Limited (South African Scale)

Rating class	Review	Rating scale	Rating class	Outlook	Date
Issuer Long Term	Initial	National	A <sub>(ZA)</sub>	Stable	November 2015
	Last	National	A <sub>(ZA)</sub>	Stable	November 2018

## Capricorn Investments Group Limited

Rating class	Review	Rating scale	Rating class	Outlook	Date
Issuer Long Term	Initial	National	AA <sub>(NA)</sub>	Stable	November 2015
	Last	National	AA <sub>(NA)</sub>	Stable	November 2018
Issuer Short Term	Initial	National	A1+ <sub>(NA)</sub>	Stable	November 2015
	Last	National	A1+ <sub>(NA)</sub>	Stable	November 2018

## Risk Score Summary

Risk score	
<b>Operating environment</b>	<b>12.25</b>
Country risk score	5.75
Sector risk score	6.50
<b>Business profile</b>	<b>1.0</b>
Competitive position	1.0
Management and governance	0.0
<b>Financial profile</b>	<b>0.5</b>
Capital and Leverage	-0.5
Risk	1.0
Funding structure and Liquidity	0.0
<b>Comparative profile</b>	<b>0.0</b>
Group support	0.0
Government support	0.0
Peer analysis	0.0
<b>Total Score</b>	<b>13.75</b>
National Scale Rating (Bank Windhoek Limited)	AA <sub>(NA)</sub> /A1+ <sub>(NA)</sub>
National Scale Rating (Capricorn Investments Limited)	AA- <sub>(NA)</sub> /A1+ <sub>(NA)</sub>

## Glossary

Capital	The sum of money that is invested to generate proceeds.
Cash	Funds that can be readily spent or used to meet current obligations.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
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.
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.
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.

## Salient Points of Accorded Ratings

GCR affirms that a.) no part of the ratings were 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; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit rating has been disclosed to Bank Windhoek limited and Capricorn Investments limited. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

Bank Windhoek Limited and Capricorn investments Limited participated in the rating process via face-to-face management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information used to analyse Bank Windhoek limited and Capricorn Investments Group limited and accord the credit ratings included:

- Audited financial results as at 30 June 2019 (and four years of comparative numbers);
- Banking sector information
- Industry comparative data; and
- Other publicly available information.

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