2020 Integrated Annual Report

THE CAPRICORN BRAND STORY

From the beginning, the stars have filled Africans with wonder.

Our ancestors did not just gaze upon their beauty as they stared up at the night sky.

They used the constellations of stars for the measurement of time, seasons, cycles, and direction.

One such constellation is Capricornus, called by ancient people "the southern gate of the sun".

It is from this constellation that the Tropic of Capricorn got its name many centuries ago, when the sun was in the Capricornus constellation at the time of the southern solstice.

All lines of latitude have geographical relevance, but to the people of southern Africa, the Tropic of Capricorn is more.

Spanning across the centre of Namibia, it ties together the lands of southern Africa, receiving the brightest rays of the sun on the summer solstice.

It signals the time of abundance with flourishing offerings from nature.

We took our inspiration from the Tropic of Capricorn, the band that symbolised abundance and created positive change for the people.

Creating positive change is what every single member of our organisation strives to achieve every day.

To find innovative ways in which to bring together our customers and their aspirations.

We passionately believe that by connecting the people of this region to opportunity and prosperity, we can help taking the region closer to realising its greatest self.

Our humble beginnings in Windhoek were born out of a tenacious spirit of entrepreneurship.

Since then, our journey has led us on a path of achievements, growing us beyond Windhoek and Namibia.

Rooted in the pillars of "W" for Windhoek where it all began, the three lines of our logo represent our values of being open, dedicated and inspired.

We are proud of our logo that reflects our legacy and how we got to where we are now.

And as before, we will always achieve our successes by holding true to our values.

Along with this, we will continue to reach for the stars,

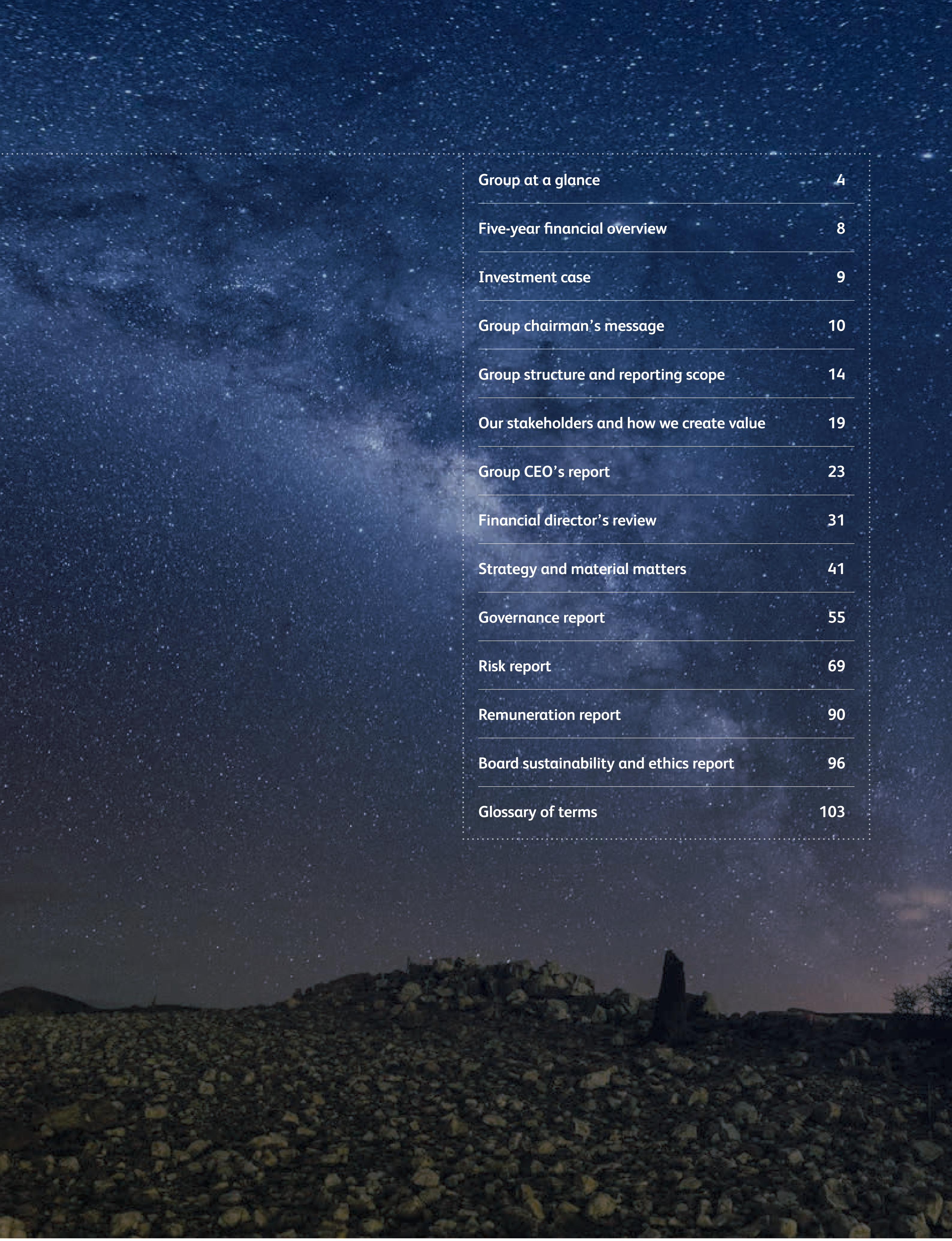
Only now we seek them in the eyes of the ones whose lives we've made better.

Not only are we inspired by the dreams of those who call this beautiful part of Africa home,

But we want to make these dreams a reality for them.

The future shines brightly, and we will journey towards it as one.

We Are Capricorn.



From the beginning the stars have filled Africans with wonder.

This integrated annual report ("the report") is a reflection on the value created by Capricorn Group Ltd ("the Group" or "Capricorn Group") during the financial year from 1 July 2019 to 30 June 2020 ("the year"). The report is aimed primarily at providers of financial capital. It also provides a holistic and stakeholder-oriented view of the environmental, social and governance ("ESG") aspects of the Group's activities and performance.

The financial and non-financial information contained in this report relates to the entities that constitute the Group, as set out on page 14 .

The global COVID-19 pandemic should be considered when comparing information in this report to the previous year. The pandemic continues to have a far-reaching impact on the Group's business activities, stakeholders and performance prospects. The United National Development Programme describes it as the defining global health and socioeconomic crisis of our time and the greatest challenge the world has faced since World War II.

The principle of materiality guided the selection of content for this report. Read more about the process we followed on page 42. Additional information is available online at www.capricorn.com.na/Pages/Reporting-Centre.aspx. For more information or feedback on this report or any other elements listed above, contact Marlize Horn on investorrelations@capricorn.com.na or +264 (61) 299 1226.

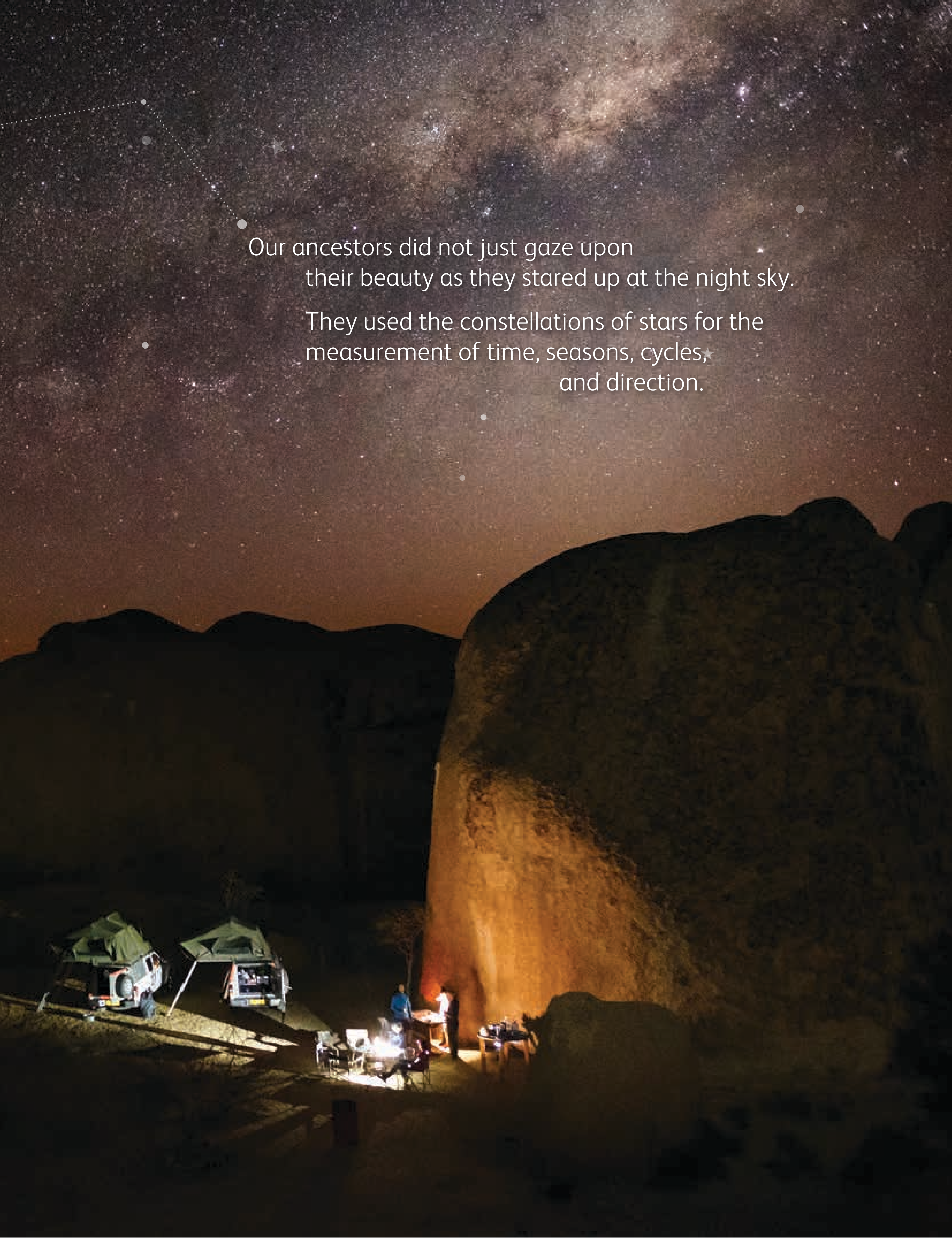
Our financial reporting adheres to:

- King IV Report on Corporate Governance™ for South Africa, 2016 ("King IV™")[1]
- Companies Act of Namibia, 28 of 2004 ("Companies Act of Namibia")
- Namibian Stock Exchange ("NSX") Listing Requirements
- International Financial Reporting Standards ("IFRS")
- Namibia Banking Institutions Act, 2 of 1998
- Botswana Banking Act, 13 of 1995
- Zambia Banking and Financial Services Act, 7 of 2017

Capricorn Group chose the International Integrated Reporting Council ("IIRC") Integrated Reporting <IR> Framework to guide its reporting.

This report contains certain forward-looking statements regarding the results and operations of the Group, which by their nature involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. These forward-looking statements have not been reviewed or reported on by the Group's external auditors.

This report was compiled with input from the executive leadership team, reviewed by the board and its committees and finally approved by the board on 15 September 2020. The board acknowledges its responsibility to ensure the integrity of the report and applied their collective minds during the preparation and final approval of the report.



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GROUP AT A GLANCE

Capricorn Group is a leading Namibian-owned financial services group listed on the NSX. We have three banking subsidiaries operating in Namibia, Botswana and Zambia, with other subsidiaries and associates providing adjacent and complementary products and services. Our customers range from personal to corporate, small and medium enterprises. Our value proposition is built around customers rather than products or channels. We apply data and digital technology in transactional banking services, products and functionality to address future customer needs.

Our purpose is: "Improving lives through leadership in financial services by being Connectors of Positive Change".

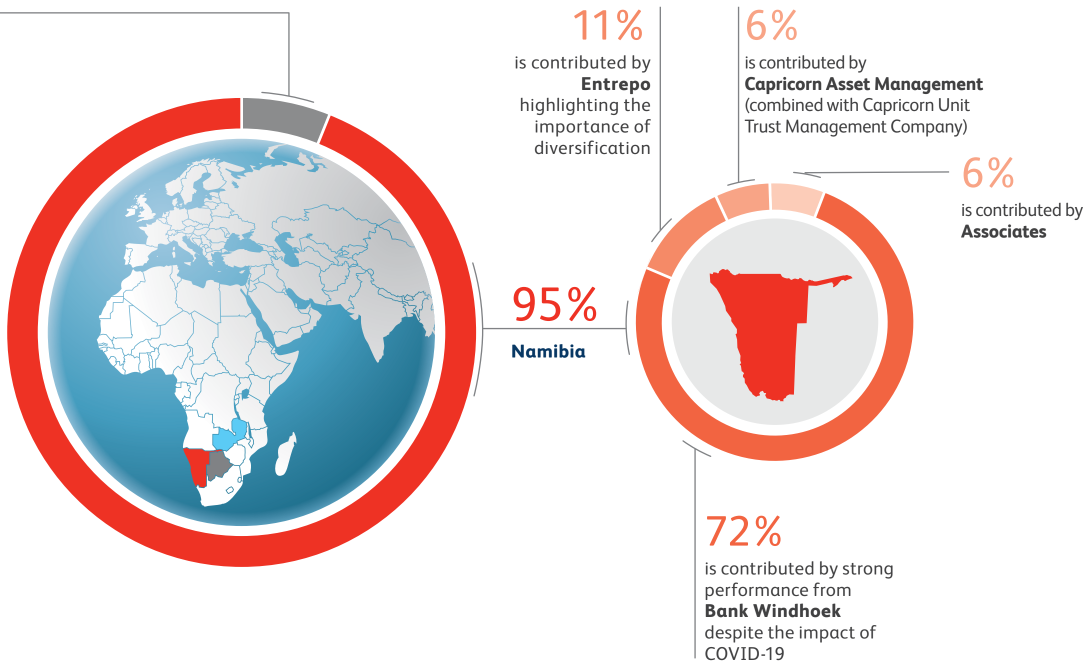
We enable the execution of our purpose through six key competencies.

These key competencies are:

1. Understanding the Capricorn Group and competitor environment
2. Deep understanding of customer needs
3. Relentless drive to improve performance
4. In-depth business insight
5. Unlock potential in self and others
6. Excellence in execution

We realise our purpose by making deliberate strategic choices and by working according to The Capricorn Way. The Capricorn Way directs us towards positive change and is underpinned by three beliefs:

Geographic contribution to comprehensive income attributable to shareholders



Lines of business

- Banking
- Specialised finance
- Foreign exchange and trade finance
- Lending
- Wealth management
- Asset management
- Unit trust management
- Bancassurance
- Property development and evaluation

Bank Windhoek | Capricorn Asset Management | Bank Gaborone | Capricorn Capital | Namib Bou

Paratus | Cavmont Bank | Santam | Sanlam | Entrepo

Our material matters for value creation

We have a stakeholder-inclusive approach that is applied in how we govern the Group, run the business and mitigate risk. We want to be catalysts of sustainable opportunities. Our engagement process identifies, assesses and tracks matters that are material to value creation.

Our eight material matters

- Ethical leadership (management and business)
- Credit risk management and mitigating losses due to bad debt
- Financial and cybercrime
- Meeting customer needs and expectations
- Demand for specialist skills driving focused development, training and diversity
- Responding to a changing regulatory and operating context
- Fintech, insurtech and evolving digital assets
- Enhancing and optimising management and operational systems

We changed our name

With effect from 23 April 2020, Capricorn Investment Group Ltd is known as Capricorn Group Ltd. This follows approval by the board, the NSX, Bank of Namibia and a special resolution of the shareholders.

The Business and Intellectual Property Authority of Namibia registered our change of name on 23 April 2020. The decision was taken to simplify and avoid confusion with Capricorn Investment Holdings Ltd ("CIH"), which owns 43.1% of the shares in Capricorn Group.

Our AsOne2020 strategy positions the Group to compete effectively in a dynamic market and is based on operational excellence. Our strategy development and risk management processes are fully integrated, both also considering our material matters. Oversight for the latter is provided by Group principal risk officers according to our 14 principal risks. Quarterly strategy dashboards and risk management reports feed into a mature governance system where a range of committees are mandated to track performance and ensure effective control.

Our AsOne2020 strategic choices

Focus on building our foundation in Namibia, Zambia and Botswana to get to a position of market leadership

Win in Namibia, Zambia and Botswana through operational excellence (lean, efficient, fast) and effective execution

Compete in Namibia, Botswana and Zambia through strategic relationships and partnerships in insurtech, fintech, mobile and telco, and education

In considering other African countries beyond 2020, target technological/borderless/cyber opportunities above bricks and mortar entry. Evaluate opportunities, whether cyber or bricks and mortar, on a case-by-case basis

Our 14 principal risks

1. Capital Risk
2. Compliance
3. Credit
4. Finance and tax
5. Financial crime
6. Investment management
7. Legal
8. Liquidity
9. Market
10. Operations
11. People
12. Reputation
13. Strategic
14. Technology

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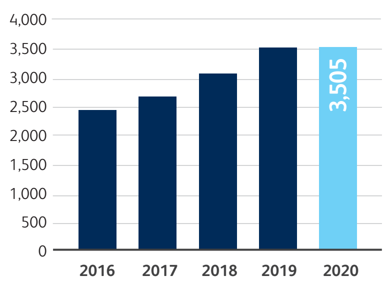
It is from this constellation that the
Tropic of Capricorn got its name many centuries ago,
when the sun was in the Capricornus constellation
at the time of the southern solstice.

FIVE-YEAR FINANCIAL OVERVIEW

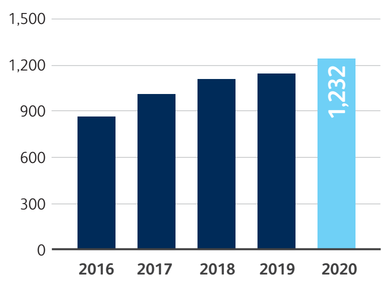
Statement of Comprehensive Income (N$'000)	2016	2017	2018	2019	2020	Five year CAGR
Total income	2,411,946	2,647,682	3,044,065	3,492,357	**3,505,610**	**11.0%**
Operating profit*	1,171,014	1,194,679	1,168,117	1,325,772	**1,300,362**	**5.8%**
Profit after tax	905,048	917,621	934,435	1,015,299	**856,412**	**2.6%**
Total comprehensive income	938,513	931,055	986,240	1,023,901	**926,827**	**3.5%**
Earnings per share (cents)	181.2	180.4	180.7	181.6	**148.6**	**(0.2%)**
Headline earnings per share (cents)	181.2	181.6	157.9	181.5	**157.2**	**0.9%**
Dividends per share (cents)	66	68	60	66	**50**	**(1.2%)**
Statement of financial position						
Total assets	32,333,653	42,920,914	47,433,686	50,677,955	**56,338,126**	**14.5%**
Total loans and advances to customers	26,598,023	33,433,922	36,234,418	38,049,583	**40,078,622**	**11.2%**
Total deposits	23,724,128	31,571,561	33,948,091	36,984,725	**39,323,264**	**12.3%**
Net asset value per share (cents)	856	1,003	1,099	1,136	**1,232**	**11.1%**
Performance indicators (%)						
Return on average equity	22.9	19.5	17.3	16.3	**12.6**	
Return on average assets	3.0	2.4	2.1	2.1	**1.6**	
Impairment charges to average gross loans and advances	0.24	0.19	0.23	0.30	**0.76**	
Non-interest income as % of operating income	40.6	38.5	41.3	40.2	**44.5**	
Cost to income ratio	50.2	53.9	60.6	60.8	**59.4**	
Closing share price (cents) at 30 June	1,724	1,809	1,723	1,600	**1,399**	
Price to book ratio at closing price per share	2.01	1.80	1.6	1.4	**1.1**	
Price earnings ratio at closing price per share	9.5	10.0	9.5	8.8	**9.4**	
Capital adequacy (%)						
Total risk-based capital ratio	15.8	16.8	15.4	14.9	**14.7**	

* *Discontinued operations included for 2019*

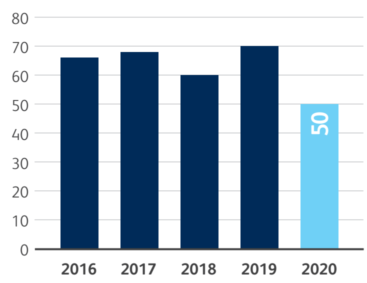
Total income (N$ million)



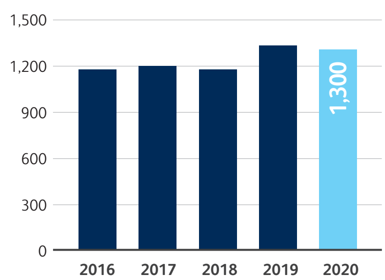
Net asset value per share (cents)



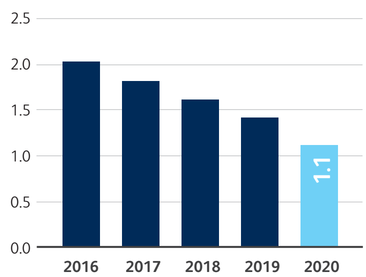
Dividend per share (cents)



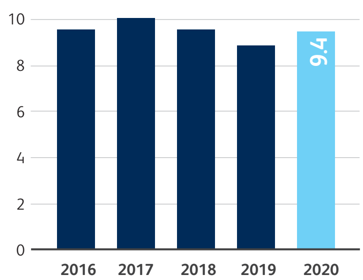
Operating profit (N$ million)



Price-to-book (ratio)



Price-to-earnings (ratio)



INVESTMENT CASE

Operating profit
N$1.3 billion
(2019: N$1.3 billion)

Net asset value per share
1,232 cents
(2019: 1,136 cents)

Profit from continuing operations
N$1.01 billion
(2019: N$1.04 billion)

Dividend per share
50 cps
(2019: 66 cps)

Return on equity
12.6%
(2019: 16.3%)

Return on equity from continuing operations
15.1%
(2019: 16.3%)

Capital adequacy ratio
14.7%
(2019: 14.9%)

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

Bank Windhoek Ltd's long- and short-term Namibian national scale ratings have been affirmed at AA(NA)/A1+(NA), with a stable outlook.

Capricorn Group is well positioned to weather the COVID-19 storm due to its strong capital and liquidity position, diversified operations, deep local knowledge and strong relationships in the markets where it operates. The Group's resilience has been illustrated by its results from continued operations, which compare very favourably with financial institutions across southern Africa.

The Group will not be exempt from COVID-19 fallout, with Bank Windhoek being the most impacted by significant interest cuts experienced in Namibia. This resulted in margin compression and an expected increase in impairments as more clients experience a deterioration in their financial position. However, the remaining subsidiaries do not anticipate the same impact and could offset some of the negative outcome for Bank Windhoek.

We take decisive action to address areas of underperformance: we agreed the sale of our loss-making operations in Zambia to Nigeria-based Access Bank Group, subject to the conditions precedent. We also restructured Capricorn Capital and believe that it will positively contribute to the Group's bottom line going forward.

We have a steady record of new product and service launches. We continue to explore adjacent sectors to grow beyond our interests in banking, asset management, insurance and finance.

Our key focus remains customers and their needs. We are investing in digital offerings and channels without compromising the personal touch and customer intimacy for which we are known.

We are growing scale and have a solid reputation.

- Bank Windhoek, the Group's flagship brand, is the largest locally owned bank and the second largest commercial bank in Namibia. It was also the first commercial bank in southern Africa to issue a green bond.
- Capricorn Asset Management ("CAM") is a fully-fledged asset manager offering a wide range of investment products across the risk spectrum to retail and institutional investors alike. CAM is one of the largest asset managers in Namibia with more than N$30 billion of assets under management.
- The Capricorn Unit Trust Management Company Ltd ("CUTM"), administered by Capricorn Asset Management (Pty) Ltd ("CAM"), has been the market leader in Namibia since 2004 in terms of assets under management in the unit trust sphere.
- Bank Gaborone is on a growth trajectory in Botswana with a proven capability to regularly launch new products and services leading to significant new customer growth. The bank has increased its market share from 7.0% to 7.5% over the last year.
- Entrepo Holdings (Pty) Ltd ("Entrepo") is expanding in the government employee market through a highly efficient, distinct and competitive capability to approve and disburse loans, and to provide credit protection cover.
- Paratus Group has a presence in six African countries and deliver services to more than 20 countries across Africa.

We are widely recognised for our lasting contributions to communities through social responsibility initiatives and significant support for COVID-19 initiatives this year.

We are stable, reliable and well capitalised. Capricorn Group has two shareholders of reference – the Government Institutions Pension Fund ("GIPF"), the largest institutional investor in Namibia, and CIH, the founding holding company of Bank Windhoek. They ensure stability, liquidity and access to capital. CGR Ratings recognised 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.

We have a strong ethical culture, entrepreneurial spirit and commitment to transparency. Ethical decision-making is demonstrated by the board and entrenched by governance structures and controls. We have zero tolerance for unethical behaviour and for non-compliance with any regulations or legislation in the jurisdictions where we operate.

Our future growth opportunity is in the convergence of data, financial services and telecommunications, which we can deliver on a regional basis through specialist competencies, strong relationships and positive connections.

GROUP CHAIRMAN'S MESSAGE

- The character, strength and resilience of our Capricorn Group citizens ensured commendable results in a distressed economic and business environment.
- Our capital position remains strong, and we continue to have the backing of our two shareholders of reference, Capricorn Investment Holdings and the Government Institutions Pension Fund. We are maintaining a healthy liquid asset buffer.
- The COVID-19-related reduction in the repo rates of central banks in the region resulted in a sharp decrease in the Group's gross interest revenue of N$211 million over the last quarter of the financial year.
- We accepted an offer by the Nigeria-based Access Bank Group to acquire Cavmont Bank, with the transaction agreements concluded shortly after the financial year-end.

Whether one looks at business from a micro-perspective, or steps back and takes a macroview on a global level beyond the countries where we operate, the same picture emerges: one of massive uncertainty, bleak recessionary outlooks and huge socioeconomic challenges. This all comes in the wake of COVID-19, the most impactful global event since the Second World War. In last year's Group chairman's message, I said that we did not expect meaningful improvement in economic and market conditions but that we were hopeful that the drought would be broken. We are grateful for much improved rainfall in the past year but lament the devastating impact the pandemic and the response thereto had on our economies and markets.

I can only marvel at the character, strength and resilience of the men and women of Capricorn Group in responding to the challenges and threats of COVID-19. They continued the delivering of services while protecting their own and customers' health, assisted customers in financial distress with deferment of loan instalments and bridging facilities. They provided financial support and supplied much-needed equipment to healthcare institutions, raised awareness and disseminated information about the virus, supported vulnerable communities with food, water and sanitisation, and assisted government in the delivery of financial relief measures. They did all of this with dedication and passion in the spirit of The Capricorn Way.

Group results for 2020 are testimony to this dedication and hard work. Reporting a profit from continuing operations of N$1.01 billion in this distressed economic and business environment is commendable. The board of directors ("board") declared a final dividend of 50 cents per share, prudently balancing the protection of the Group's capital and the needs of shareholders.

In line with global markets and with added pressure of low liquidity the NSX local index declined by 15.7% from 610.92 to 515.07 over the year ended 30 June 2020. The closing price of a Capricorn Group share decreased by 12.6% over the same period to N$13.99 at the reporting date. This represents a price-to-book ratio of 1.1 (2019: 1.4). Our capital position remains strong, and we continue to have the backing of our two shareholders of reference, Capricorn Investment Holdings and the Government Institutions Pension Fund. We are maintaining a healthy liquid asset buffer and have appropriate contingency funding facilities at our disposal. We have a robust risk, internal control and assurance framework in place. More detail on our assessments and responses to risk is set out in the risk report from page 69.

Reflecting on the 2020 financial year, several aspects stand out:

- **Our core Namibian market was in troubled economic waters long before COVID-19 reached our shores.** We have been operating under difficult trading and policy conditions with little evidence of necessary structural reforms in sight.
- **Significant reductions in interest rates brought some relief for our customers** but significantly reduced our banks' interest revenue. The sharp reduction in the repo rates of central banks in the region resulted in a decrease in the Group's gross interest revenue of N$211 million over the last quarter of the financial year.
- **We delivered good customer experiences** judging by the overall customer satisfaction score of 79% and a Net Promoter Score of 55 points, substantially higher than the industry benchmark of around 40 points. This tells us that our customers have had positive experiences across most of the banks' service channels and are likely to actively promote our business.
- **Our employees are more engaged and committed than ever before.** The Group's annual mirror survey results showed a remarkable improvement in the number of fully engaged employees. Overall participation increased from 78% to 89% and fully engaged employees increased from 31% to 43%. I believe this is attributable to a leadership team that listens and finds new ways of working. When employees are engaged, they collaborate and go out of their way to solve problems – a capability that stood out in the way our employees responded to COVID-19.
- **Zambia's economic woes continued** with severe drought conditions, unreliable and restricted electricity supply, lower mining output on the back of subdued copper prices, growing fiscal deficits and government debt, high inflation and weakening currency. This prompted the Group to positively consider the offer by the Nigeria-based Access Bank Group to acquire Cavmont Bank. Transaction agreements for the sale of Cavmont Bank to Access Bank Zambia were concluded shortly after the financial year-end. The transaction is subject, among others, to regulatory approvals as well as shareholders' approval.
- **Namibia faced the alarming reality of large-scale corruption** exposed in the fishing industry. This brought stakeholders together as we recognised the need to act collectively and swiftly to pre-empt further scandals. More people now recognise the importance of an ethical culture in business and government. The Group has a formal approach and

framework, including a policy and structures for monitoring and reporting on ethics. We encourage our employees, suppliers, business partners and other stakeholders to be vigilant and decisive and to support our efforts to expose and avoid any form of corruption or potentially fraudulent behaviour.

- **Our strategy cycle** that started in 2018, focusing on the pursuit of operational excellence, ended on 30 June 2020. This inward looking phase positioned us well for a more outward, customer-centric strategy cycle. The board was actively involved in thinking through and shaping the new AsOne2023 strategy with management subsequently modelling and developing the plans to execute the new strategy. As the COVID-19 pandemic interrupted this process, we added a shorter-term game plan to specifically address its potential impacts, while continuing on the path directed by our choices for the next cycle.

At the start of a new financial year, our priorities are tied to the stability and sustainability of our Group for the benefit of all our stakeholders. This is only possible through the commendable commitment and passion of our Capricorn citizens. I want to express my heartfelt appreciation for their resilience, dedication and hard work during these difficult times. I also thank our board members, who walked the extra mile in all aspects of discharging their fiduciary duty this year. We had tough conversations and difficult decisions to make, which I believe were made possible by the integrity and the character of the people around our boardroom table.

I thank our shareholders for their continued trust, notwithstanding a declining share price. My final words of thanks are directed at our valued customers who remain the main reason for our being. We will continue to serve you and support you as we together navigate the uncertain path ahead. We do not expect meaningful improvement in the short term. However, we believe that opportunities will emerge from this turmoil that will bring positive change for the Group and our stakeholders.

Johan Swanepoel

Group chairman

As a Group with deep roots in Namibia and a footprint in Botswana and Zambia, we recognise our responsibility to contribute in a meaningful way. Our brand promise of being Connectors of Positive Change guided us to be a responsible corporate citizen and to contribute towards various initiatives.
The COVID-19 pandemic made us reassess our areas of focus for social investment, and we shifted our spending towards health and partnering with governments to fight the pandemic.

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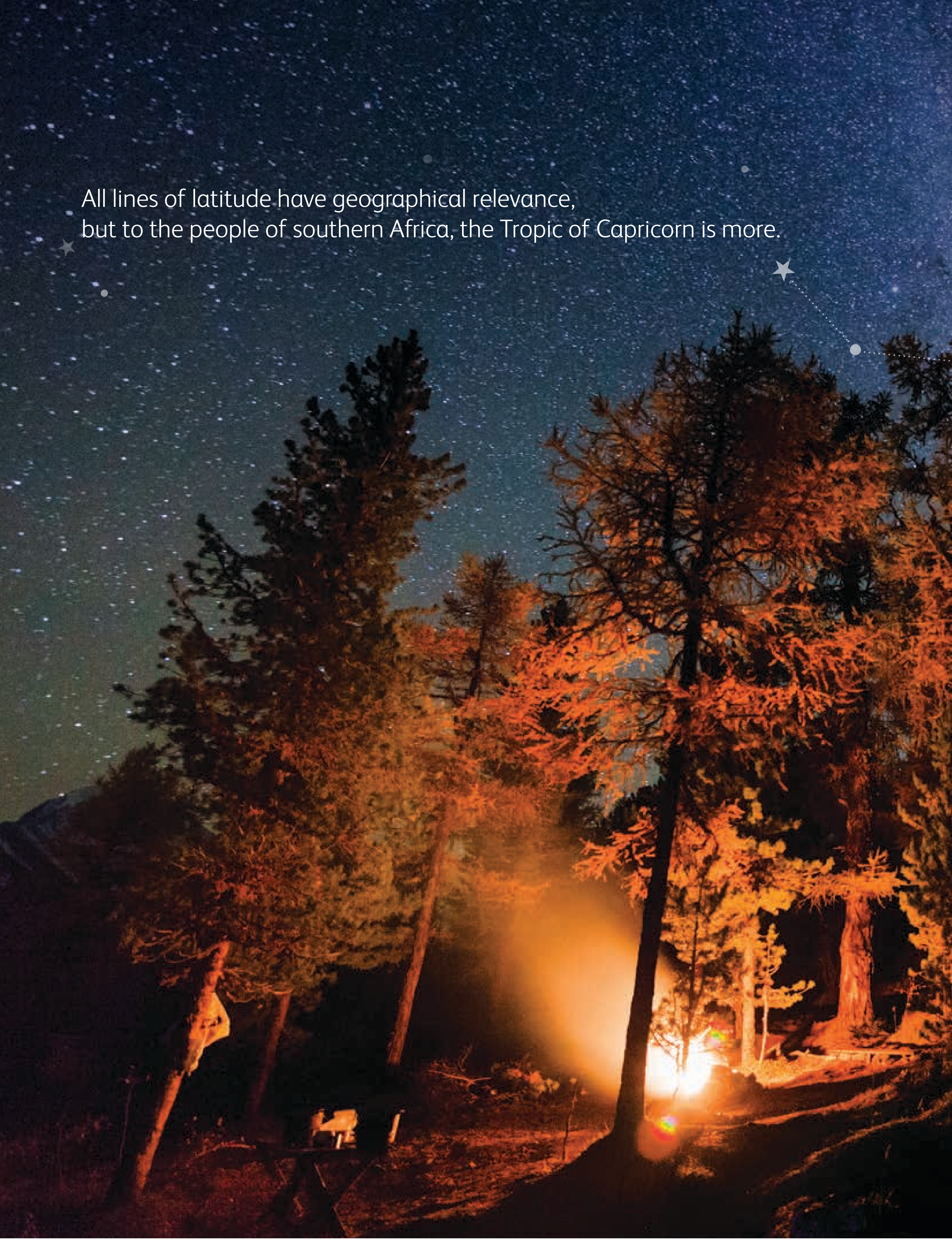
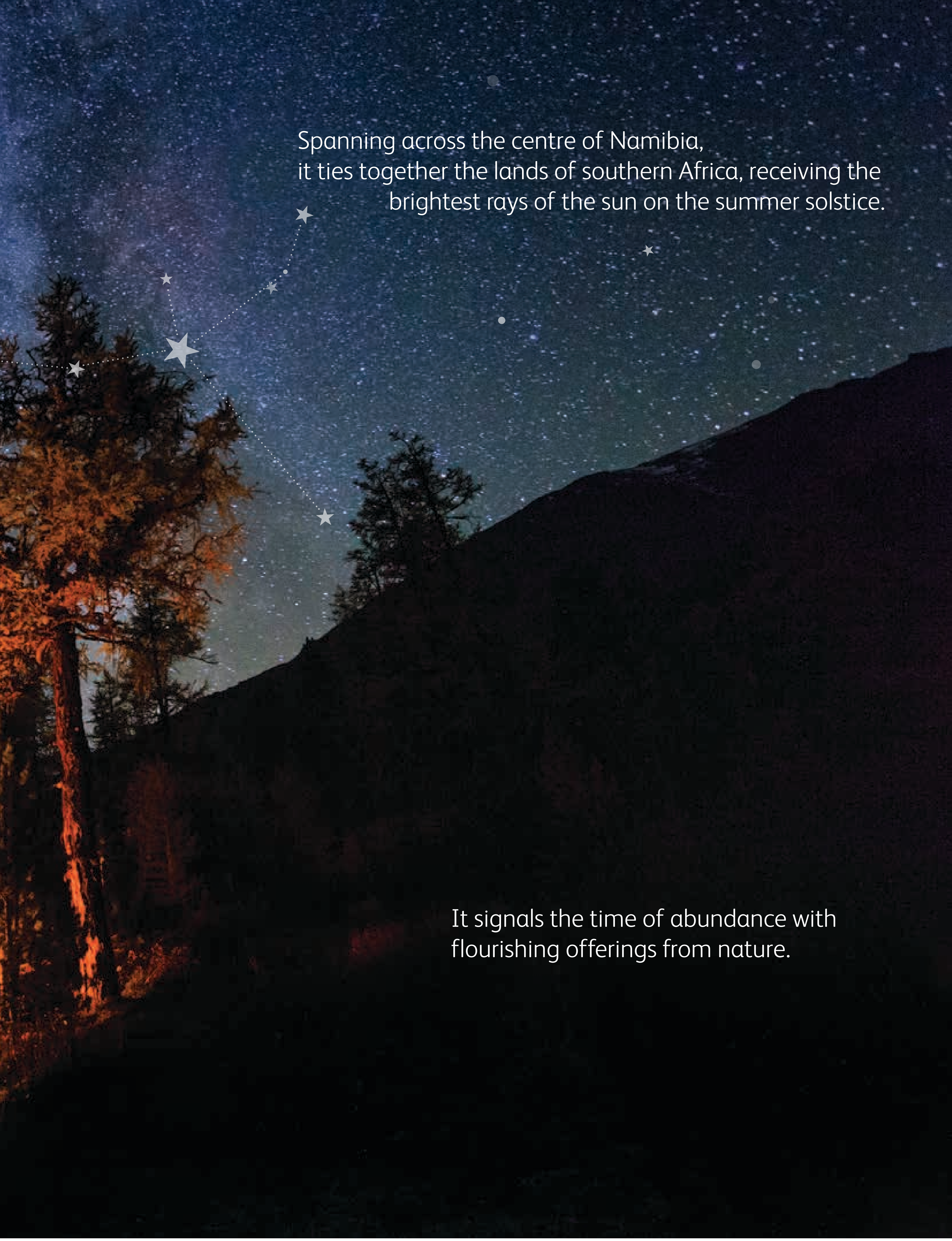
but to the people of southern Africa, the Tropic of Capricorn is more.





Spanning across the centre of Namibia,
it ties together the lands of southern Africa, receiving the brightest rays of the sun on the summer solstice.

It signals the time of abundance with flourishing offerings from nature.

The Group has a diversified shareholder base, with total direct and indirect previously disadvantaged shareholding of 42.85% and Namibian shareholding of 98.64% as at 30 June 2020.

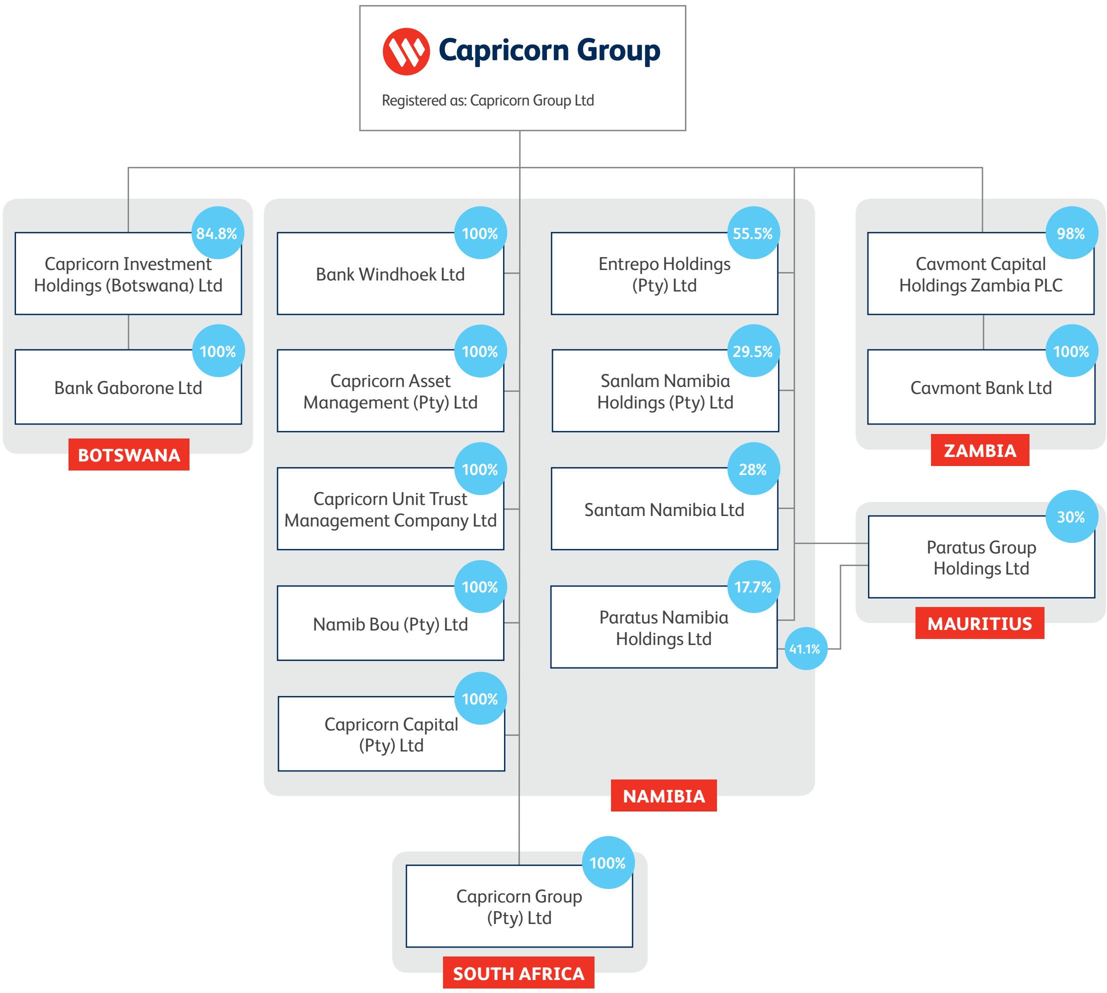
GROUP STRUCTURE AND REPORTING SCOPE

Integrated reporting boundary

Our reporting boundary extends beyond the Group's financial boundary to include a regional presence shaped by political, regulatory and economic policy and regimes in different countries. Read more about our operating context on page 41. Our reporting emphasis is on Namibia, where 95% of our total income is generated. Within our reporting boundary we consider the perspectives of all stakeholders and engage with them to ensure the continued relevance of our material matters. Read more about our stakeholders on page 19.

Financial reporting boundary

Our financial reporting boundary is reflected in the Group audit scope, which included financially significant components identified based on indicators such as contribution to profit before tax or total asset value of the Group. All subsidiaries were subjected to a full scope audit. Find the independent auditor's report on page 107.



Major shareholders in Capricorn Group

as at 30 June 2020

43.1% Capricorn Investment Holdings Ltd ("CIH")

25.9% Government Institutions Pension Fund ("GIPF")

8% Nam-mic Financial Services Holdings (Pty) Ltd

3.4% Capricorn Group employee share trusts

19.6% Other shareholders

66%
contribution to net profit after tax
(2019: 69%)

Windhoek, Namibia
Head office

1982
Date of establishment

1,639
Number of permanent employees
(2019: 1,575)

Our Group's major operating subsidiaries

I am proud to lead Bank Windhoek, the Group's flagship brand and to share an overview of the Bank and our contribution to the Group for the period ending 30 June 2020. The strength of our Group lies in its diversity and our subsidiaries are stronger when they support each other.

Baronice Hans, Managing director

Bank Windhoek is a fully-fledged bank and the Capricorn Group's flagship brand. It is the largest lender in Namibia and was the first commercial bank in southern Africa to issue a green bond.

Bank Windhoek offers a wide range of banking products and services covering the personal, corporate, and small and medium enterprises market segments. Our offering includes transactional, investment and lending products, as well as digital and electronic banking services. A wide spectrum of financial solutions for business clients includes structured finance, working capital finance and tailor-made term financing options.

Bank Windhoek offers a wide range of treasury services, including money market and foreign currency exchange services. Our international banking services comprise foreign payment products, trade finance and foreign currency accounts.

Our bancassurance options include short-term, life, travel and commercial insurance, and guarantees.

Bank Windhoek's private banking offering is provided through Capricorn Private Wealth, a joint venture between Bank Windhoek and Capricorn Asset Management. Capricorn Private Wealth caters to the affluent market's banking, wealth and investment needs.

Bank Windhoek was named Bank of the Year in November 2019 by the leading Financial Times publication, The Banker in London, and also received the award for the Best Corporate Bank in Namibia by the London-based Global Banking and Finance Review in December 2019. Bank Windhoek was recognised for employees' knowledge and expertise, and the bank's overall performance.

In December 2019, Bank Windhoek was ranked as the best Bank in Namibia by the PSG Banking Review Report for the first time. The review provides a detailed time series and financial ratio analysis between Namibian and listed South African, Botswana and Zambian banks.

Bank Windhoek

Life is filled with highs and lows – valleys and peaks that test our resilience and that push us to overcome challenges. The lessons that we learn on our journey together have taught us that we are much stronger as one!

Baronice Hans, Managing director

More information about our associates is available online

Paratus Group Holdings Ltd: www.paratus.africa
Sanlam Namibia Holdings (Pty) Ltd: www.sanlam.com/namibia
Santam Namibia Ltd: www.santam.na

5%
contribution to net profit after tax
(2019: 5%)

Gaborone, Botswana
Head office

2006
Date of establishment

305
permanent employees
(2019: 295)

Bank Gaborone

Unprecedented events have inspired a new way of doing business. We will continue to change, build and rebuild, because we are stronger as one.

Sybrand Coetzee, Managing director

Since commencing operations in 2006, the bank expanded its network to 12 branches and 13 BG Finance offices countrywide, offering an increasingly broader range of products and services in response to market needs. To increase branch efficiency and branch focus on sales, the back-office operations of all branches are centralised. The bank opened the Group's first "branch of the future", which diversifies the services offered to clients within the branch.

Bank Gaborone offers personal and corporate products and services tailored to different market segments:

- Deposit accounts for individuals and businesses including current, savings, investment and call accounts, as well as foreign exchange products and services
- Loan accounts including vehicle and asset finance, home and building loans, unsecured lending through BG Finance, commercial loans and overdraft facilities
- Bancassurance including short and long-term insurance
- Electronic channels including internet banking, mobile app and SMS banking, bulk payment services, ATMs, point-of-sale devices and SMS notifications
- Private Banking financial solutions

The bank increased its market share by 1.1% over the past three years to 7.5% this year and aims for medium-term growth to a 10% share.

Lusaka, Zambia
Head office

2004
Date of establishment

231
permanent employees
(2019: 308)

Cavmont Bank

Our combined ideas, diversity, solutions and experience continue to unlock our future. As a team, we are stronger as one.

Peet van der Walt, Managing director

Cavmont Bank is a 100% subsidiary of Cavmont Capital Holdings Zambia Plc ("CCHZ") and was established in 2004. CCHZ listed on the Lusaka Stock Exchange ("LuSE") in September 2006. Cavmont Bank provides corporate, investment, retail and community banking services.

Cavmont Bank offers its customers various investment products, ranging from term and fixed deposits to asset-backed securities. Payment solutions include real-time gross settlement, direct debit and credit clearing, as well as foreign exchange services. It also offers the e-Cavmont internet banking facility. Its personal, business, treasury and credit products include:

- Personal savings, transaction and loan products
- Business transaction and loan products
- Foreign exchange trading and deposit accounts

Capricorn Asset Management

5%
contribution to net profit after tax
(2019: 4%)

Windhoek, Namibia
Head office

2006
Date of establishment

45
permanent employees
(2019: 43)

N$31.3 billion
assets under management
(2019: N$27.4 billion)

We are stronger as one Group servicing the unique needs of our clients with client centricity built into each aspect of what we do.

Tertius Liebenberg, Managing director

The Group's asset management activities are conducted under two legal entities: CAM and CUTM. All administration and asset management activities of CUTM funds are performed by CAM.

CAM is a leading, fully Namibian-owned asset management firm aiming to meet the investment needs of individual investors, financial advisers, businesses and institutional investors, including pension funds and insurance companies. CAM's unique service offering includes investment advisory, financial planning, estate planning and fiduciary services. It manages investments covering all major asset classes in markets around the world.

Capricorn Private Wealth, a combined offering of CAM and Bank Windhoek, focuses on servicing the needs of the affluent market segment of the Capricorn Group in one integrated offering.

As a leading unlisted investment manager, CAM has a specific focus on debt financing. The Caliber Capital Trust is an approved unlisted special purpose vehicle in terms of Part 8 of the Pension Funds Act, 24 of 1956. It provides Namibian pension funds and other institutional investors with an alternative to unlisted equity investments to diversify risk. The Caliber Capital Fund invests in Namibian companies that aspire to the aims of the Harambee Prosperity Plan and Vision 2030, which include job creation, import replacement, and industry and infrastructure development.

The Capricorn Unit Trust Fund range was established in 2000 with the launch of the Capricorn Selekt Fund. CUTM has been the market leader since 2004 in terms of assets under management in the unit trust sphere. With total assets under management of over N$30 billion, CUTM's latest market share is approximately 31% with 13 unit trusts covering all major asset classes, including cash, bonds, property, equity and international equities.

entrépo

19%
contribution to net profit after tax
(2019: 15%)

Windhoek, Namibia
Head office

2014
Date of establishment

36
permanent employees
(2019: 33)

Our team at Entrepo is fully focused on our simple but effective business model and together we are stronger as one.

Leonard Louw, chief executive officer

Entrepo is a focused and innovative financial services group, providing lending and credit protection products to government employees in Namibia. Its business activities are conducted through two separate legal entities regulated by the Namibia Financial Institutions Supervisory Authority ("NAMFISA"): Entrepo Finance (Pty) Ltd, a registered lender, and Entrepo Life Ltd, a registered long-term insurer.

Entrepo's tailor-made products are simple and clear, competitively priced and provide comprehensive and suitable benefits to the chosen target market. Entrepo Finance is a responsible lender and accepts loan applications that are considered against clear and unassailable rules regarding affordability and minimum take-home pay. As security against the loan, a client may choose to take out Entrepo Life's credit protection product, which offers death, disability, funeral and job-loss protection benefits.

We took our inspiration from the Tropic of Capricorn, the band that symbolised abundance and created positive change for the people.

OUR STAKEHOLDERS AND HOW WE CREATE VALUE

Our stakeholders enable us to create opportunities and act as catalysts and Connectors of Positive Change.

Our stakeholders are those individuals or groups that are impacted by our business activities – and who have an interest in our success. Their relationships with Capricorn Group – whether they form part of the Group (for example, employees) or have external roles (for example, clients or service providers) – determine the intensity, nature and intervals of engagement. Our material stakeholder groups are:

- **Shareholders**
- **Employees**
- **Strategic alliance partners**
- **Government and regulators**
- **Customers**
- **Communities**
- **Suppliers**
- **Trade Unions**
- **Media**

Effective engagement with stakeholders is a core element of our purpose, and aims to achieve the following outcomes for Capricorn Group:

- Effective engagement
- Increased positive brand perception
- Increased brand loyalty
- Positive word of mouth
- Sustainable business and communications

Stakeholder engagement is important because it:

- Enables us to sense the needs of stakeholders and to respond appropriately
- Ensures that we engage in a customised, coherent and consistent way
- Enables better planned and more informed policies, programmes, products and services that are aligned with stakeholder expectations
- Supports the Group's other strategic initiatives
- Positions stakeholder engagement as an enabler of the Group's business success
- Facilitates effective internal collaboration and knowledge sharing about stakeholder interests, needs and positioning
- Communicates the importance the Group places on engaging with its stakeholders
- Builds relationships and create trust with our stakeholders

Oversight of stakeholder engagement falls within the terms of reference of the board sustainability and ethics committee ("BSEC"). We manage and report our engagements through a strategic stakeholder engagement plan for all Group entities. This plan supports the implementation of the Group and subsidiary AsOne2020 strategy, with initiatives linked to material matters or corporate social responsibility ("CSR") themes.

We prioritise stakeholder engagement by plotting stakeholders on an 'influence and interest' grid. This helps us identify key stakeholders that have high influence and high interest in the Group, and determine appropriate levels of engagement. For each stakeholder group, we identify opportunities and desired outcomes. These include creating strong relationships around and awareness of our regional footprint and banking brand in all three territories.

As part of our stakeholder engagement, we negotiate with three unions that represent employees in the Group:

- The Namibian Financial Institutions Union ("NAFINU") at Bank Windhoek
- The Botswana Bankers Employees Union ("BOBEU") at Bank Gaborone
- The Zambia Union for Financial Institutions and Allied Workers ("ZUFIAW") at Cavmont Bank

CASE STUDY

Sharing our journey and principles with suppliers

Our relationship with business partners and suppliers is important as it creates financial and operational value for both parties. We recognise the industry expertise of our partners and know that they bring many potential benefits to the Group.

Long-term supplier relationships help us reduce risk, improve performance, protect our brand and secure supply. To embed these relationships, we shared our operational, compliance and ethics requirements with our suppliers during a workshop in November 2019. We assured suppliers that the Group is committed to proper governance controls regarding competitive bidding, supplier selection and contract awarding.

We are governed by a comprehensive and robust Procurement Policy to ensure that we only do business with reputable suppliers. We have an onboarding process as stipulated by our internal ethical and risk policies and we adhere to the Financial Intelligence Act, 13 of 2012.

Our relationship with suppliers is further governed by the Suppliers' Code of Conduct, which all suppliers are required to sign. We expect suppliers to fully adhere to our ethical, labour, health, safety, confidentiality and other standards. The code applies to everyone who supplies goods and services to the Group, including their representatives, employees and third parties subcontracted by the supplier.

We confirmed our support for local businesses and will continue giving preference to suppliers that support the protection of human rights and the inclusion of diverse sourcing criteria. This includes previously disadvantaged minority and women-owned businesses and businesses that promote diverse employment practices.

As we are committed to the sustainability of both our own and suppliers' businesses and the health of the communities where we operate, we expect our suppliers to use resources efficiently.

Our value creation summary

Our main resources

We use four major categories of resources to do business and achieve our purpose. In this way, we create sustainable opportunities for our stakeholders, which leads to positive change.

FINANCIAL CAPITAL

Our services and offerings rely on cash flow. We collect money through funding mechanisms such as bonds, deposits, dividends and reinvestments. We use money responsibly in our engagement with customers to facilitate transactions, to earn interest and to invest. We apply this principle in the Group to make acquisitions and pay dividends. Read more in the financial director's review on page 31.

MANUFACTURED CAPITAL

Our branches, offices, call centre, ATMs, cash express machines and cash form part of the physical infrastructure that we use to operate. They give us a base to securely and conveniently interact with customers, including through expanding data facilities and networks that provide digital infrastructure for online and mobile offerings. Read more in the section on our material matters from page 41.

HUMAN, INTELLECTUAL, SOCIAL AND RELATIONSHIP CAPITAL

Our purpose statement emphasises our role as Connectors of Positive Change. We engage with our stakeholders to bring innovation, service improvement and empowerment. By using these relationships, knowledge and ethical behaviour we can increase systemic awareness and responsiveness, for example through COVID-19 support initiatives. Read more in the section on our material matters from page 41 and in the BSEC report from page 96.

NATURAL CAPITAL

We are a relatively modest consumer of natural resources in our business activities. However, the indirect impact of natural disasters such as droughts can affect our business significantly. We provide credit and insurance to businesses that predominantly rely on natural resources and are at risk of climate change impacts. These include industries such as mining, agriculture, fishing and construction. We manage our exposure through an Environmental and Social Management System ("ESMS"), which guides credit allocation and lending activities. Read more in the section on our material matters from page 41 and in the BSEC report from page 96.

How we apply our resources

We provide a range of financial services to individuals in all income groups, and commercial customers in the three countries in which we operate:

TRANSACTIONS:
we facilitate payments

LOANS, CREDIT AND DEPOSITS:
we provide credit, loans and savings or investment products

ASSET MANAGEMENT:
we invest and manage assets on behalf of customers

ADVISORY:
we provide investment banking and advisory services

BANCASSURANCE:
we provide short and long term insurance products

FOREX AND TRADE FINANCE:
we provide currency access to global markets

How we look after our resources, relationships and future

The Capricorn Way defines our shared culture based on a set of values and behaviours. These ensure that our outcomes are in the best interest of the Group and our stakeholders.

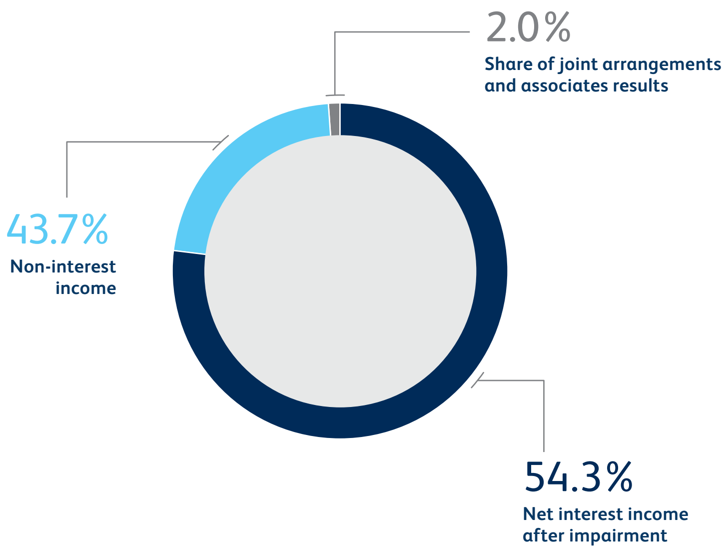
Our governance and risk management capability supports ethical and effective leadership. The board ensures that Capricorn Group remains a sustainable, well performing and legitimate business.

Our four strategic choices guide decisions and trade-offs in a continuously evolving operating context in Namibia, Botswana and Zambia. These choices are supported by our focus on operational excellence.

Our engagement with stakeholders informs what we regard as material for the Group to continue creating value. Our eight material matters define risks and opportunities, and are integrated into our governance structures and strategic approach.

Financial value created for stakeholders

Financial value generated



Trade-off decisions for long-term value

In banking, we make daily trade-off decisions where we often sacrifice short-term gains for long-term value creation. The examples below illustrate such trade-offs this year:

- Bank Gaborone closed 4,200 dormant small balance credit transaction accounts and a further 2,300 small debit balances. Although this had a negative impact on customer numbers, we were able to reduce non-compliant ratios and avoided further maintenance charges on non-productive accounts. The bank also implemented minimum deposit account opening levels, minimum hold balances and stopped opening accounts for customers unless they commit to full banking with us. These decisions slowed the growth in new customers but improved average customer contribution.
- Bank Windhoek implemented a strategy to grow funding from operating account balances and reduce expensive funding like NCD's and Senior Debt to counter margin compression in the significant rate-cutting cycle. This reduces cost of funding, but is done at an increased liquidity risk. The bank managed to substantially improve its funding mix from a cost perspective.

Our brand proposition states that we are catalysts of sustainable opportunities. Thus, there is an opportunity to be a catalyst in everything we do. Ultimately, our success as a Group enables us to reinvest in the development of the economies in which we operate. We are recognised as a responsible corporate citizen, contributing to socioeconomic development, yet we aspire to do better and give more because we care about the future of the people that we serve. This is why our purpose is "Improving lives through leadership in financial services by being Connectors of Positive Change."

Financial value distributed

Future expansion and growth

N$747 million
22.9%

Employees

N$1.1 billion
33.2%

In addition to remuneration, employees receive rewards, recognition and have opportunities for career and personal development.

Suppliers

N$450 million
13.8%

Suppliers have a market for their products and services, and opportunities to expand the range and nature of their contracts with the Group.

Government and regulators

N$553 million
16.9%

The Group pays taxes, duties and licence fees in the territories where we operate, and supports government in maintaining a stable, trustworthy and well-functioning financial system.

Communities

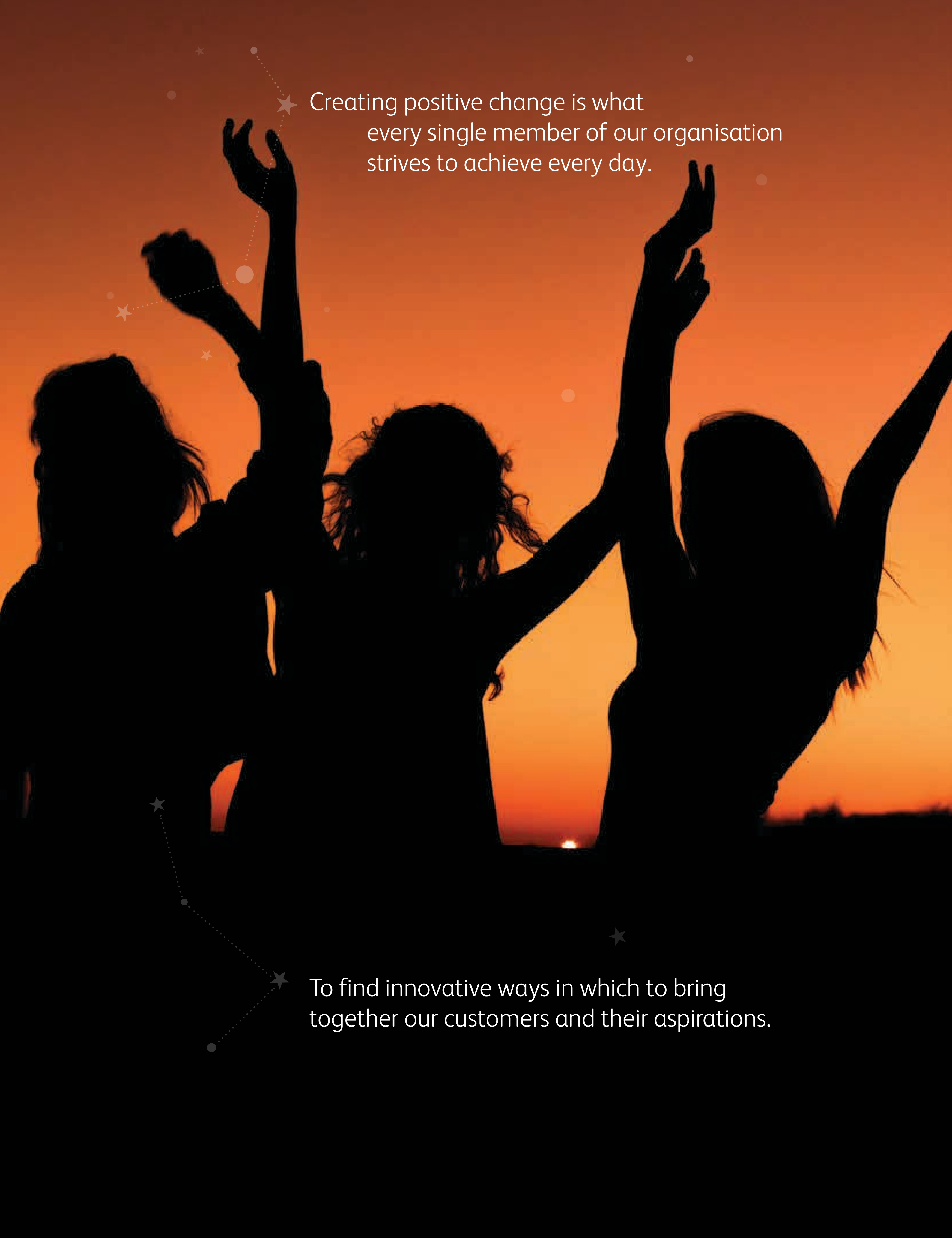
N$14.5 million
0.4%

Capricorn Group employees volunteer and support community projects in addition to financial contributions that are focused on training and a range of development outcomes.

Shareholders

N$417 million
12.8%

Shareholders receive dividends and benefit from funds retained for future growth opportunities.



Creating positive change is what
every single member of our organisation
strives to achieve every day.

To find innovative ways in which to bring
together our customers and their aspirations.

GROUP CEO'S REPORT

- 2020 was an eventful year that brought new dimensions to our strategic reflection and planning processes
- Operational performance showed resilience and sustainability under guidance from a leadership team that embraced change and lived The Capricorn Way
- Capricorn Group made a significant contribution to support governments and vulnerable communities during the COVID-19 pandemic
- The short term outlook for the Group is challenging, however, we will continue making priority investments in data and digitisation to enhance the client experience

An eventful year

We started the 2020 financial year with confidence: the Group delivered good results in the previous year, and we were on track to deliver more positive growth. At the end of December 2019, we reported solid half year results, despite continuing difficult economic conditions in all the operating regions. This bore testimony to the resilience of the Group.

We were in the process of defining our new strategic choices for the AsOne2023 strategy, and were attuned to the political, economic, social, technological and environmental risks shaping the next three years.

Three months later, the world was gripped by a challenge that would severely test the resilience of our societies, communities and families. Namibia was already in a precarious position economically and was forced to confront the reality of extensive corruption in the fishing industry. COVID-19 brought a further dimension to a set of deep external challenges that would bring lasting structural change to business and society.

At the end of the financial year, our results are evidence of mature and robust operations and people. By ensuring the well-being of the business, our employees and clients as a priority, Capricorn Group endured and performed well under extremely challenging conditions.

The widespread impact of the COVID-19 pandemic will probably only become fully visible in the next financial year. In an effort to mitigate the impact on our clients, we have been assisting them in a financially responsible way, appropriate to each within their unique circumstances. Our response varied as some clients were better positioned than others to cushion the impact. We engaged proactively and kept close to our clients.

I am proud of the Capricorn citizens who embraced the many changes brought on by the pandemic and who adapted to new ways of working, while continuing to serve our clients. The health and safety of our employees was our first priority and we had all the necessary personal protective equipment available within several days and provided on-site clinics for screening.

The most significant impact from COVID-19 to date is the loss of income due to a reduction by central banks of their bank rates by 225 bps in Namibia, 50 bps in Botswana and 225 bps in Zambia since March 2020. The effect of lower income on profitability was further exacerbated by increased credit impairment losses as customers found it increasingly challenging to service their debt while non-interest income was severely impacted by the forced closure of businesses in what became a new buzzword – lockdown.

These impacts are discussed in detail in the financial director's review from page 31.

Reflecting on our AsOne2020 strategy cycle

The three-year strategy cycle that came to an end this financial year focused on operational excellence, executed through four strategic choices and guided by the behaviours in The Capricorn Way.

We achieved a significant part of what we set out to do. By applying operational excellence as a deliberate strategy, we were able to get solutions through our systems and channels to the client.

Significant achievements over the three-year period included:

- Bank Windhoek now has the highest market share for loans and advances in key segments and second highest market share for deposits in Namibia.
- Bank Windhoek increased the number of customers per full-time employee over the three years with an additional nine customers per employee.

This year has been one in which we learned to embrace change in a new way. We stepped into roles and shoes that none of us anticipated. No matter what we faced, we made connections, we made a difference and took our responsibility as Capricorn citizens seriously.

- Capricorn Private Wealth was launched, and its customer contribution is ahead of what we aimed for.
- At Bank Gaborone, the growth in total loans and advances and total deposits is ahead of the industry.
- Six Sigma drove a material improvement in customer activation processes:
  - Bank Windhoek reduced the turnaround time for instant card issuing from three days to seven minutes
  - Bank Windhoek improved customer experience by reducing the client acquisition cycle time from 90 to 35 minutes
  - Bank Windhoek reduced the number of application forms for client and product acquisition from four forms to one, and the number of pages per application decreased from 11 to three
  - A cloud-based automated workflow solution was implemented in the legal collections department to reduce turnaround time by at least 50%, significantly reducing errors and the workload of employees
  - Bank Gaborone launched two key projects to reduce the turnaround time on personalised card issuing from two weeks to three days and to reduce the average days for unsecured lending disbursement from five to two working days
  - Bank Gaborone implemented Six Sigma enhancements in our customer service optimisation programme to have a single customer onboarding document to reduce the number of legal pages
  - Customers of Bank Gaborone can now obtain an instant card and transact at points of sale and ATMs immediately following the in-branch roll-out since October 2019
- Six Sigma analyses were used as input into many other process improvement initiatives. We will continue to invest in Six Sigma as a capability and will expand our process optimisation competency to the benefit of our clients, internal customers and ultimately, shareholders. To become a customer-led organisation, the Six Sigma capability will greatly improve our ability in future to identify defects associated with customer delivery.
- We acquired a 55.5% shareholding in Entrepo and a 30.0% shareholding in Paratus Group Holdings.
- New products included smartphone mobile banking applications such as EasyWallet and SPENN, credit cards and targeted accounts.

Lessons learned from our previous strategy cycles

- Be more deliberate about implementation and shared accountability for execution
- Focus on both strategy metrics and targets as well as on change management to drive execution (The Capricorn Way)
- Over communicate on strategy

- We opened an in-house client contact centre in June 2018 providing a 24-hour inbound service for all three banks
  The outsourced service provider contract was up for renewal in July 2018. By insourcing the solution, we saved N$2 million in fees over a five-year period, while also expanding our service offering with the same number of employees.
- We refreshed the Group brands in line with the monolithic brand architecture.

Compared to the previous strategy cycle from 2014 to 2017, we improved our ability to achieve better throughput and faster delivery of our strategic projects. COVID-19 came as an accelerator. Many of the tools we introduced in terms of Agile have become key in tracking actions and monitoring progress during this time. COVID-19 was an igniter of taking Agile further.

A focus of the 2018-2020 strategy cycle was to improve our execution abilities. We adopted Agile methodologies and built eight execution platforms to assist, among others, with strategy execution; these platforms proved to be effective – for both strategy and non-strategy projects.

The new AsOne2023 strategy features our strategic choices and a refreshed, focused purpose statement. Read more in the strategy section from page 41.

Operational performance

Capricorn Group's response to a challenging year showed resilience and sustainability. Profit from continuing operations contracted by only 2.2% to N$1.01 billion, which compares favourably to results announced by other financial institutions in the SADC region. We are proud of the performance delivered by our business units and associates.

Bank Windhoek

Bank Windhoek delivered strong results; however, profitability was under pressure towards the end of the financial year due to the systemic measures taken by the Bank of Namibia in support of the economy post the outbreak of COVID-19. The key action that affected Bank Windhoek was the significant reduction in the Namibia repo rate by 225 bps. Profit after tax decreased by 9.8% to N$721 million (2019: N$800 million). We had to consider short-term trade-offs to ensure the bank's long-term sustainability, especially given Bank Windhoek's role as a systemically important player in the financial ecosystem of Namibia. The bank's focus was on ensuring stability through business continuity and prudent credit and liquidity management.

Business activity and transaction volumes decreased significantly during the lockdown period, and the bank extended COVID-19 assistance in various forms:

- An investment to protect employees while operating as an essential service
- Clients were assisted on a case-by-case basis through loan deferments and fees and charges were reduced in certain instances

- Assisted communities in need
- Procured testing kits to assist the government's COVID-19 testing
- Assisted government in executing its stimulus package by facilitating income grant payments

Bank Windhoek is embedding its position as a leader in sustainability finance in Namibia. Read more about the impact of our green bond in the case study on page 50.

We are proud of the digital offerings that we have developed over the past few years. EasyWallet is a success story and we are working on integrated point-of-sale and ecommerce offerings. Going forward we will focus on digitising our core business processes to create differentiating client experiences.

Although digital banking penetration in Namibia is low, mobile app use grew 46.0% and 34.6% of our clients are using some form of digital banking.

Our bancassurance offering enhances customer value as an add-on to banking products. We focused on an integrated sales approach, which improves cross-selling and upselling. The uptake was generally positive, boosted by the launch of the new account for Namibia Students Financial Assistance Fundholders and resulted in an increase in the average products per customer from 1.3 to 1.5.

Bank Gaborone

Bank Gaborone delivered solid results, reporting profit after tax of BWP39 million, an decrease of 10.9% compared to the prior year. This is despite two rate reductions during the year, 25 bps in August 2019 and 50 bps points in May 2020.

One of Bank Gaborone's strategic challenges is to achieve scale in terms of market share. We made satisfactory progress towards building scale and will continue to focus on this in the next strategy cycle.

The bank had a strong focus on client service and expansion. As a result, we now have a fully operational centralised branch administration centre and opened a new branch in our "bank of the future" format. The latter includes a new way of managing customer assistance and flow in the branch.

We launched a mobile app to enable instant, on the go banking for retail clients and convenient, secure and efficient Electronic Payment Solutions for businesses, including Point of Sale ("POS").

Four BG Finance branches were closed and incorporated into the retail branch network. This enabled Bank Gaborone to offer a full retail proposition to clients in central locations where they could access a more comprehensive financial solution and hence a better in-branch experience overall.

The lockdown in Botswana due to the COVID-19 pandemic resulted in some productivity challenges but effective employee rotation allowed continued service delivery to clients. This highlighted the need for support structures in the business and the depth of expertise required for shift work. We will focus on training and upskilling post-COVID-19 as new digital platforms and skills will be required to remain competitive.

We assisted clients by lowering digital platform fees and providing additional customer call centre contact numbers to improve access to and response rate of the call centre. Branches operated with the necessary health and safety procedures and protective gear. Predictably, new customer onboarding and transactional volumes declined.

Cavmont Bank

Cavmont Bank made an operating loss of ZK102 million, compared to a loss of ZK17 million in the previous year. As part of a focused turnaround strategy, the bank restructured and right-sized at the beginning of the financial year. The project consisted of two components:

- The rationalisation of the branch network by merging branches, the centralisation of back office operations and branch closures
- The streamlining of head office support functions aimed at ensuring an efficient business model to take advantage of growth opportunities, improve client service offerings and make provision for end-to-end banking solutions

Centralisation eliminated process duplication, reduced overall turnaround time on applications and improved client experience. Retail credit applications turnaround reduced from five days to 48 hours.

Highlights for the year included Cavmont Bank being the first bank to go live on the National Financial Switch, enabling clients to deposit directly into a Cavmont account at any Kazang agent or merchant. The SPENN application and partnership enhanced our digital presence and image.

On 31 July 2020, a month after the end of our financial year, Capricorn Group's Zambian subsidiary, Cavmont Capital Holdings Zambia Plc ("CCHZ"), signed a Share Purchase Agreement with Access Bank (Zambia) Ltd ("Access Bank Zambia"), a subsidiary of Access Bank Plc, regarding a proposed merger of Access Bank Zambia and Cavmont Bank. Capricorn Group owns 98.03% of CCHZ, which owns 100% of the share capital of Cavmont Bank.

Under the terms of the agreement, Access Bank Zambia will acquire the entire issued ordinary share capital, assets and liabilities of Cavmont Bank while Capricorn Group, as the majority shareholder of CCHZ will reinvest at least ZK300 million of preference shares into the combined bank. Capricorn Group will hold preference shares in the enlarged Access Bank Zambia for five years, after which the preference shares will be acquired by Access Bank Plc for a maximum purchase amount of ZK300 million.

The combined bank will be a top 10 bank in Zambia and have a larger customer base, significantly higher asset base and will be well positioned to service the growing Zambian market. As a larger, better capitalised and more diversified bank, the combined bank will be ideally placed to participate in the long-term economic growth of Zambia, predicated on the country's vast reserves of natural resources and fast-growing young population.

The net result provides an improved position for all Cavmont Bank clients, colleagues and shareholders. Clients can benefit from a larger, better capitalised and more diversified bank, while employees will have greater professional development opportunities in a larger, pan-African bank. Shareholders are able to realise their capital from a listed entity, on an illiquid stock exchange.

Capricorn Asset Management

Despite the challenges posed by COVID-19, CAM continued growing fee income due to new inflows and rotation into higher fee generating funds. Investors are switching to more conservative asset classes during these uncertain times, which will see the average asset management fee decline.

Assets under management increased 14.2% to N$31.3 billion – a significant growth milestone.

Some outflows, specifically from corporate clients, are not expected to be replenished in the short term as these entities use funds to sustain themselves in the lower growth environment.

CAM launched the Capricorn Global High Yield Fund this year. The fund invests in high-quality US dollar denominated short-term bonds and money markets to provide a South African rand hedge without the associated volatility of equity markets.

We improved our client administration system capabilities, reworked our client service charter and enhanced portfolio risk management, and achieved the desired risk-adjusted returns for most portfolios.

Clients continue to migrate to the digital platform with 38% of clients now registered. More the 70% of clients receive their statements via the security-enhanced digital delivery system. Currently 20% of client transactions are processed on a straight-through basis. These factors enabled CAM to reduce paper use 47%.

Capricorn Capital

Capricorn Capital did not deliver the value we anticipated. To address the lack of performance and outlook, the business was restructured into two divisions – advisory and specialised finance – to be more streamlined and attuned to client and market needs.

Entrepo

Despite the major slowdown in economic activity in Namibia as a result of COVID-19, Entrepo once again delivered solid performance and increased profit after tax by 18.0% to N$202.6 million, thereby making an increasing contribution to Group profit.

New business inflows and income margins were satisfactory in difficult trading conditions and management expenses remained tightly controlled. New business is sourced from an established and expanding branch infrastructure, and from a mobile sales office and online application capability.

We welcomed Leonard Louw on 1 January 2020 as the new chief executive officer of Entrepo as Leeba Fouche took up the role of Group non-executive chairman.

CASE STUDY

Taking mobile money to the next level

SPENN, a mobile money application, was launched in February 2020 in partnership with Norwegian firm Blockbonds. SPENN enhances the money wallet concept. It is a viral cash and money transfer solution which is independent from an ATM or bank.

Accessible through a smartphone, SPENN users can create free accounts to do free transfers and payments to anyone, anywhere. It offers a point-of-sale solution and allows users to find businesses that use SPENN. SPENN Power users can use the app to earn money by offering other users the opportunity to top up and cash out their SPENN account through the Power user. The latter receives commissions for cash-out transactions – replacing the need for ATMs and other cash withdrawal points.

Since its launch, SPENN registered 257,034 users. It has proven to meet customer needs and helped us deliver on Cavmont Bank's promise to continue banking the unbanked.

Other

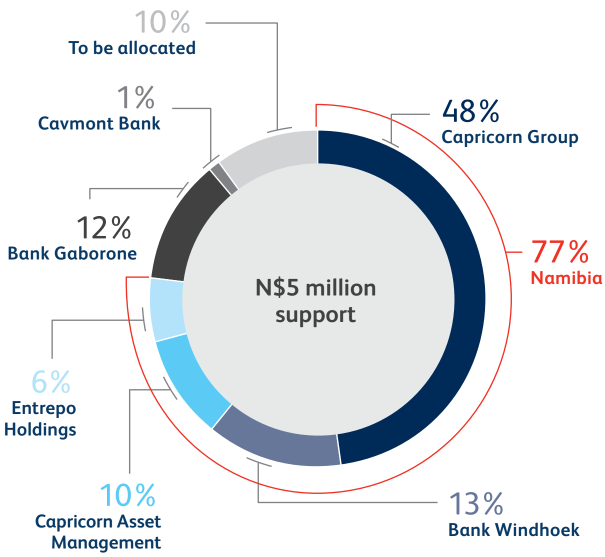
Income from associates decreased by 12.3% (2019: 18.9% decrease). Santam maintained its leading market position under difficult social and economic conditions. The lockdown and economic slowdown negatively impacted premium growth as new business acquisition reduced significantly. The challenging economic conditions in Namibia contributed to severe price competition in the general insurance market. Targeted interventions were introduced to contain operational costs.

Low investor confidence resulted in lower investment inflows for Sanlam in Namibia. The life insurer experienced increased new business strain and showed only marginal growth.

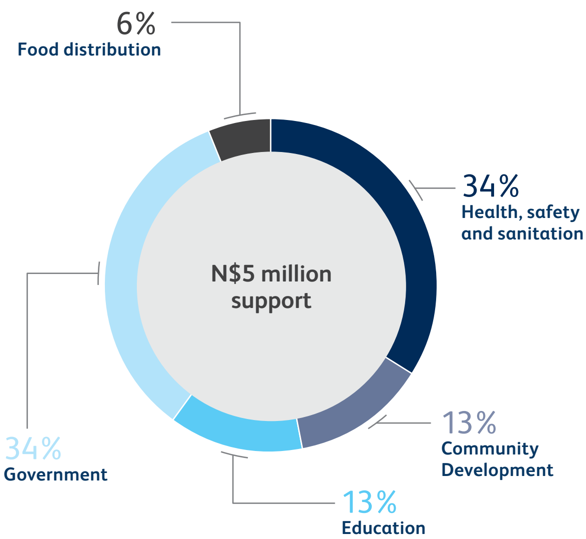
Santam and Sanlam continue to focus on synergies with key stakeholders, optimised efficiencies and stringent cost management.

Our investment in Paratus is positioned for long term value creation. The investment rationale was driven by the convergence between financial services and telecommunications and the exponential growth in the demand for data. The first step was to shift our internal networks to Paratus to gain efficiencies in infrastructure with an operational and cost benefit for the Group. Our next priority will be to gain similar cost and efficiency benefits in the Group's data centres.

Group-wide CSR response to COVID-19



Group-wide CSR response to COVID-19, spending per sector



CASE STUDY

Positive change in times of need

During the COVID-19 pandemic, Bank Windhoek actively identified opportunities to assist customers and communities beyond financial contributions to projects.

Bank Windhoek provided specific support for small and medium-sized enterprises ("SMEs") with an annual turnover of under N$10 million, customers in the tourism sector, the agriculture value chain, transport and health sectors, and clients who lost all or part of their salary income due to the fallout of COVID-19.

The bank launched a fast-track application process for the deferment of capital and interest payments on term loan facilities, vehicle and asset finance, mortgage loans and overdraft facilities up to N$2.5 million for an initial period of up to three months. The fast-track process was designed to simplify applications and facilitate a quick response to ensure clients are assisted timeously.

Bank Windhoek recognises that senior citizens often rely on the interest earned on their investment. The bank offered them preferential interest rates on fixed deposits for periods of 12, 18 and 24 months while guaranteeing the return and capital for the period. To help stabilise investment income, the bank paid monthly interest and, for some accounts, implemented no transaction fees at Bank Windhoek ATMs, free point-of-sale transactions and free access to all electronic channels.

The bank identified the informal settlements in Windhoek as communities in urgent need of collective support. Approximately 300,000 citizens face factors such as poor hygiene, inadequate water supply and lack of access to information regarding COVID-19 in vernacular languages. Bank Windhoek joined other private sector partners in support of the Mayoral Relief Fund to purchase 10,000-litre water tanks to provide these communities with much-needed access to clean and safe water.

Bank Windhoek donated N$258,000 to translate relevant information about COVID-19 into all vernaculars and to broadcast it on radio services of the national broadcasting company. Bank Windhoek assisted the Ministry of Health to procure 50 reagent testing kits and nasopharyngeal swab collection kits used for COVID-19 testing, which allowed for 500 tests to be conducted.

Bank Windhoek is a proudly Namibian bank and is committed to addressing the plight of our country and our people to ensure the sustainability and future growth of our clients, and ultimately the Namibian economy.

Connectors of Positive Change

The Capricorn Way is our moral compass and North Star. It encourages exceptional performance and living positive change among our employees – the people we lead.

The COVID-19 pandemic overshadowed many planned activities and opportunities to act as Connectors of Positive Change. These included some of Capricorn Group's signature "Inspire" stakeholder events and the annual Connector conference. The tenure of the existing members of NeXtGen board was extended to December 2020 as their plans were put on hold.

In response to the pandemic, Capricorn Group committed N$5 million to support government and vulnerable communities in Namibia over a period of four months to July 2020. Through the collective efforts of all Group entities, who made further contributions, we are true Connectors of Positive Change during this difficult time. Our contributions are unpacked on page 29.

Outlook and priorities

Sustainable growth will be a priority post-COVID-19. We will continue to seek opportunities in the right sectors and segments where we can build on strong client relationships. We will continue to use data and digitisation to enhance the client experience.

The pandemic highlighted the need to automate and roll out electronic capabilities to assist clients in banking remotely. We are reinventing the distribution model and channels by digitising business processes and moving cash out of branches. We will invest in developing the right skills and use technology to enhance process and capabilities, especially in sales. We will continue to expedite change and execution in a complex world.

A priority will be to ensure the successful integration of Cavmont Bank with Access Bank Zambia to facilitate a smooth merger of the two banks. This will result in Access Bank Zambia becoming a top 10 bank in Zambia and one of the best capitalised banks in the country.

When I put on my red vellies I commit to being a leader that harnesses the power of my team in a more effective way. That means leveraging the strength of each individual in my team to ensure greater impact.

This year we introduced the Red Vellie as our new Capricorn Way symbol of cultural change. These shoes are an expression of cohesion: vellies are worn by most cultures and by all generations and genders. They are a symbol of endurance, can be worn with anything, and portray the essence of being uniquely African.

The concept was introduced at the Group's leadership conference and required a promise from every leader to walk the talk, be an example of what is possible and inspire others to do the same.

CAM will continue to evaluate its product offering to offer clients a full range of investment options. CAM is investigating regional expansion to specifically enhance the offering to the affluent market.

Limited growth is anticipated in Entrepo's target market over the medium term. Entrepo remains confident that its superior speed in the distribution of products and high levels of client satisfaction will continue to ensure a competitive edge in the market.

The success of the Group's future plans and ambitions depend on our employees. We will continue investing in their development, provide coaching opportunities and take them with us as we explore new ways of working. Succession remains a focus, and we plan to be more deliberate in mapping internal and external talent while growing our young talent for the future.

Thinus Prinsloo

Group chief executive officer

CASE STUDY

Connecting contributions to COVID-19 needs

Vulnerable people in our societies are our main priority. Below are highlights of our financial contributions towards the COVID-19 pandemic:

N$240,000 contributed to **Step out of Poverty** through Education, Encouragement and Support ("SPES") charity	Capricorn Group and Entrepo made this contribution to support teachers with a small grant for four months and enable SPES to acquire and distribute food parcels to children, teachers and their immediate families.
N$300,000 contributed to **Imago Dei Welfare and Poverty Relief Association** (Groot Aub Community Project)	Hygiene and sanitation are key to fighting the COVID-19 pandemic. Capricorn Group contributed to building a safe housing structure that will house 60 – 80 children, accommodate 250 children in the "Come and Go" food programme, have proper running water and provide a safe outside playground area.
N$70,000 contributed to the **Imago Dei Welfare and Poverty Relief Association** (Make a Noise COVID-19 Feeding Scheme)	CAM contributed to nutritional meals for orphans and vulnerable children in the informal settlement of 8ste Laan, Otjomuise. This included health education sessions to teach children how to stay safe and healthy during the pandemic.
N$150,000 CAM contributed to the **Gondwana Care Trust**	This trust helps provide children of vulnerable communities across Namibia with a warm meal and basic hygiene items.
N$150,000 CAM contributed to the **Pupkewitz Foundation**	This foundation provided healthcare workers with protective gear and ventilators. It also supports the Ethel Pupkewitz feeding scheme.
N$300,000 contributed to the **Namibia Red Cross Society ("NRCS")**	Through the NRCS's network of volunteers, the funds supported community sanitation and provided protection kits to marginalised communities. Packages included water storage containers, Tippy Taps, mask sets, gloves and disinfectants. Funding also supported volunteer training and food distribution.
N$1,000,000 contributed to the **Namibian National Emergency Disaster Relief Fund**	The funds were received by the office of the Prime Minister and will be distributed nationwide by government.
N$500,000 contributed to the **Ministry of Health**	The Ministry of Health provided us with a list of specific medical items that they need to fight the pandemic. As part of the contribution, Bank Windhoek spent N$330,000 on testing kits to date.
BWP400,000 contributed to the **National COVID-19 Relief Fund** in Botswana	Bank Gaborone contributed funds that included a donation to the Botswana Gender Based Violence Prevention and Support Centre and a radio show named Health Chat. This assisted in informing and conversing with Batswana on issues around COVID-19. Some branches made in-kind donations in partnership with the communities we serve.
ZK57,200 contributed to the **Zambian Ministry of Health** and the **University Teaching Hospital**	The funds contributed to frontline protective clothing as part of a larger donation through the Bankers Association of Zambia. We also donated face masks to our adopted maternity ward at the University Teaching Hospital for nurses, cleaners and caretakers.

We passionately believe that by connecting the people of this region to opportunity and prosperity, we can help taking the region closer to realising its greatest self.

FINANCIAL DIRECTOR'S REVIEW

The Group's financial strength and resilience is the outcome of effective strategy implementation, decisive choices and clear long-term financial targets. Our financial performance is supported by a robust risk, internal control and assurance framework.

Key financial indicators and 2020 targets to build sustainable competitive advantage

Return on equity is the overall measure of our success

2019	2020	ROE from continued operations
16.3%	12.6%	15.1%

2019	Target	2020
60.8%	We want to maintain cost to income ratio below 60 %	59.4%
40.2%	We want non-interest income to be more than 45 % of operating income	44.5%
4.1%	We want the ratio of non-performing loans as a % of loans and advances to be <4.5 %	4.7%
88.7%	We want to keep the loan to funding ratio below 90 %	87.9%

Events that shaped the year under review

- **Strong Group performance during the first nine months of the year** with an increase in profit before tax of 15.6% before the impact of COVID-19
- **The COVID-19 pandemic** caused substantial financial strain during the last three months of the financial year, with a significant impact on interest margins as a result of the unprecedented rates cuts, a decrease in non-interest income following lockdown measures, and an increase in impairments due to the financial pressure on various clients
- **Capricorn Group contributed N$5 million to COVID-19 relief measures** which included direct support to government as well as projects to support vulnerable communities. Read more about the Group's response to the pandemic on pages 27 and 29
- **We successfully implemented IFRS 16 – 'Lease requirements'**. For an analysis of the impact refer to note 1.3.1 (a) of the annual financial statements
- **The sale of Cavmont Bank**, which had been loss-making for three years, to Access Bank Zambia was announced and the transaction is expected to be completed during the last quarter of 2020
- **Capricorn Group acquired a 30% shareholding in Paratus Group Holdings Ltd** on 1 July 2019 in line with our long-term ambition and strategic choices to transform the business using data and digital

Financial highlights

Group profit from continuing operations of

N$1.01 billion

despite the economic impact related to COVID-19

Bank Windhoek grew liquid assets by **24.4%** during the year to ensure a healthy liquidity buffer and loan to funding ratio improved from **92.1%** to **91.3%**

Market share of loans and advances increased to

33.2% (2019: 32.2%)

Bank Gaborone increased gross advances by

11.5%

while also improving the funding mix to increase net interest margin to

4.6%

from 4.1% in the prior year, despite a 75 bps rate cut during the year

Capricorn Group remains profitable and sustainable in the hands of a board and executive management team that have demonstrated a strong governance culture, entrepreneurial spirit and commitment to transparency.

Investors want to know: How is COVID-19 impacting financial performance?

Concern 1: liquidity position

Concern 2: credit quality

Concern 3: earnings quality

Concern 4: capital depth

How are we ensuring sufficient liquidity?

The Group's approach to liquidity management is unchanged with liquidity always taking preference over the optimisation of profits. Namibia experienced significant liquidity constraints from the end of 2018 resulting in some of the lowest levels of market liquidity in a decade last year.

Following the declaration of a global pandemic, liquidity received increased focus. With no major outflows or drawdowns, Capricorn Group's liquidity position remained healthy throughout the COVID-19 period, and even improved to some of the best levels the Group has ever had.

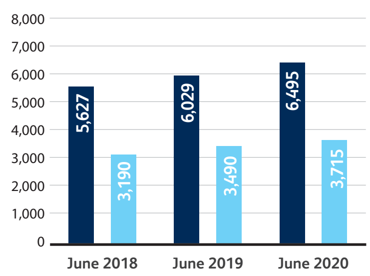
A high loan-to-funding ratio increases profitability, but at a higher risk to the Group. Our approach is to balance profitability and liquidity risk by maintaining the loan-to-funding ratio below 90%. The Group's treasury and credit teams worked closely together to achieve a rate of 87.9% this year.

Bank Windhoek increased funding by 7% to N$37 billion. In line with the bank's strategy to grow operating account balances, current and savings account balances increased by 22.4% and 21.3% respectively. Resulting from this focus to grow cheaper funding, the average cost of funding, excluding the impact of rate cuts, improved by 47 basis points. The funding growth was used to grow loans and advances by 4.9% and liquid assets by 24.4%.

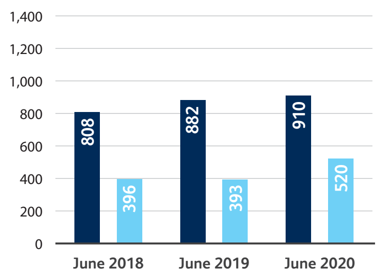
Bank Gaborone increased funding by 5.2% to BWP5.2 billion and focused on optimally managing and balancing liquidity and cost of funding. Cost of funding reduced from 3.74% to 3.27% year-on-year.

As at 30 June 2020, Bank Windhoek experienced healthy liquidity levels with N$2.8 billion in excess liquid assets, including its buffer portfolio, above Bank of Namibia requirements, while Bank Gaborone, experienced a lower surplus of BWP390 million above Bank of Botswana requirements.

Bank Windhoek liquid assets (N$'million)



Bank Gaborone liquid assets (BWP'million)



Regulatory requirement   Actual liquid assets

Over and above the liquidity buffers the banks have in place, the Group has N$1 billion in liquid assets in South Africa on the back of which we issued committed facilities to the respective three banks. When this committed facilities are taken into account, Bank Windhoek and Bank Gaborone have N$3.5 billion and BWP527 million liquidity buffers available respectively. This represents a buffer above the respective minimum requirement of 94% and 59% respectively.

Financial highlights

CAM grew assets under management by

14.2% to N$31.3 billion

while increasing profit after tax by

14.1%

Entrepo launched a full online loan application process and notwithstanding the COVID-19 impact grew loan and advances by

19%

and profit after tax by

18%

Paratus Namibia invested

N$100 million

in infrastructure and grew profits by

101%

Non-interest income as a percentage of operating income increased to

44.5%

(2019: 40.2%)

Net asset value per share increased by

8.5%

to **1,232 cents**

(2019: 1,136 cents)

Financial lowlights

COVID-19 measures impacted transaction volumes, interest margins and impairments, while increasing exchange rate related expenses

Reduced interest rates had a

N$98 million

negative impact on operating profit

Lockdown measures impacted transaction volumes leading to a

N$44 million

negative impact on non-interest income

Future looking economic overlay added

N$136 million

to impairment charges

Cavmont Bank made a loss of

N$155 million

Capricorn Capital did not meet growth and contribution expectations

Salient performance features from our main subsidiaries

Bank Windhoek

1.7%
growth in net interest income
(2019: 10.0%)

24.4%
growth in liquid assets
(2019: 15.3%)

10.8%
deterioration in operating profit
(2019: 10.6% increase)

Net interest margin of
4.3%
(2019: 4.6%)

Bank Gaborone

31.0%
growth in net interest income
(2019: 2.2%)

7.5%
market share
(2019: 7.0%)

7.6%
deterioration in operating profit
(2019: 11.4% increase)

11.5%
loan book growth
(2019: 14.0%)

Net interest margin of
4.6%
(2019: 4.1%)

Capricorn Asset Management

N$31.3 billion
assets under management

14.2%
growth in assets under management

12.6%
growth in non-interest income

Entrepo Finance

Net business inflows of
N$197 million
resulted in the total loan book increasing by
19.0% to
N$1.2 billion

Entrepo Life

Premium income decreased by
3.5% to
N$186 million

Claims paid increased by
15.3% to
N$30.7 million

The regulators announced the following support to the banks as a result of COVID-19:

- The Bank of Namibia relaxed the Determination on Liquidity Risk Management whereby banking institutions are required to ensure that their cash inflows match the cash outflows expected within zero to seven days. The limit has been relaxed so that expected outflows may exceed inflows, but not more than the excess liquidity above the regulatory limit.
- The Bank of Botswana announced the following measures to support liquidity of banking entities in Botswana:
  - The cost of accessing overnight funding by licensed commercial banks from the Bank of Botswana Credit Facility is now provided at the prevailing bank rate, without the previous punitive 6 percentage points above the bank rate
  - Repo facilities previously available only on an overnight basis will be offered against eligible securities with maturity of up to 92 days
  - Subject to completing regulations and arrangements relating to valuation and custody, the collateral pool for borrowing by licensed commercial banks from the Bank of Botswana was extended to include all corporate bonds listed and traded on the Botswana Stock Exchange
- The Bank of Zambia launched its Targeted Medium-Term Financing Refinancing Facility, initially set at ZK10 billion. This will offer liquidity support to financial service providers for onward support to various players in targeted sectors of the Zambian economy.

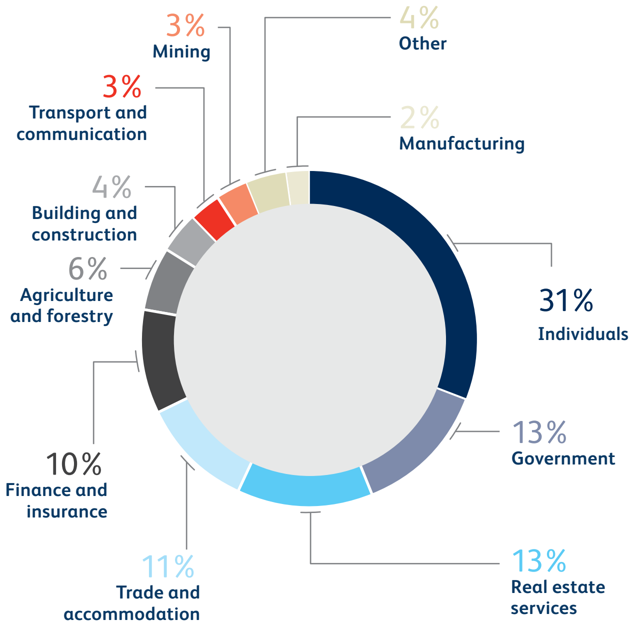
How are we managing credit?

Net asset value increased by 8.5% and return on assets settled at 1.6%

Asset quality has always been a key focus of the Group. The challenging economic environment resulted in increasing scrutiny of the asset books of financial institutions. The measures taken to limit the spread of the virus impacted different customers and sectors in different ways. The travel, tourism, hospitality and construction sectors were most severely affected by restrictions. Read more about our efforts to support customers in the Group CEO report from page 23.

Among the four major banks in Namibia, Capricorn Group has the most diversified exposure to sectors in its loan portfolio. This means that the severity of the impact on asset quality is spread, but at the same time, the Group has a significant exposure to trade and accommodation.

Capricorn Group loan portfolio per sector



Source: Namibia Banking Review: Impact of COVID-19 – IJG Securities, May 2020.

Lending has always been the core strength of Bank Windhoek's business activities, and has been gaining scale at Bank Gaborone. Bank Windhoek's gross advances increased by 4.9% to N$33.4 billion, despite low demand for credit from the private sector over the past year which was 75% above private sector credit extension of 2.8%. The growth was mainly due to commercial loans.

Bank Gaborone increased gross advances by 11.5% to BWP4.7 billion as the bank continued to grow market share. Growth in advances was mainly attributable to commercial and mortgage loans.

Entrepo increased loans and advances by 19.0% to N$1.2 billion.

Demand was particularly muted towards the end of the financial year as the COVID-19 impact compounded recessionary economic conditions.

Current adverse economic conditions have seen a substantial increase in non-performing loans ("NPLs") across the industry. The Group has also seen an increase in NPLs, but not to the extent reported by most financial institutions across the Southern African Development Community. The Group's total NPLs increased from N$1.6 billion to N$1.9 billion over the financial year resulting in an increase in the NPL ratio from 4.1% to 4.7%. The increase is mainly the result of:

- Bank Windhoek NPLs increased by 20.5% from N$1.22 billion to N$1.47 billion. This was mainly due to deterioration seen during the last quarter of the financial year and is spread across a large number of clients.
- Bank Gaborone had an increase in NPLs of 15.3% to BWP291.2 million. This was mainly due to a deterioration of the loan book across all sectors amplified by the COVID-19 pandemic during the last quarter of the financial year.

The increase in impairment charges of 146.1% is mainly due to the prudent approach applied given the current economic circumstances and the requirement of IFRS 9 to be forward looking in the calculation of expected credit losses. The economic overlay applied contributed 45% of the increase which is not reflective of the Group's asset quality. As a result of the significant higher increase in impairment charges compared to the increase in NPLs, the NPL coverage ratio increases from 47.3% to 49.0%.

	N$'000 Stage 1 and 2	N$'000 Stage 3	N$'000 Total
Impairment charges	**73,607**	**230,764**	**304,371**
IFRS 9 Base Model Charges	3,908	164,046	167,954
IFRS 9 Overlay	69,699	66,718	136,417

Our focus remains on prudent and proactive credit risk management through a decentralised credit model. Read more about actions taken in the risk report from page 69.

How are we protecting earnings quality?

Sustained profitability across most sectors came under pressure towards the end of the year as lockdown severely impacted demand and economic activity across the world. The lowering of interest rates as part of stimulus packages had a significant impact on interest income while the impact on cost of funding is delayed and does not adjust to the same extent as on the income side. This resulted in material margin compression. With a large part of our operating cost fixed, operating margins have to suffer.

Net interest income

Net interest income and interest margins came under significant pressure during the last quarter of the financial year with the aggressive rate cuts across all three jurisdictions. During steep rate cuts like this, current and operational accounts are already at very low rates and cannot be repriced further. Additionally, funding products like negotiable certificates of deposit, senior debt and term deposits can only be repriced at maturity while others are linked to the three months Johannesburg Interbank Average Rate ("JIBAR"), which also does not reprice immediately. This resulted in a material margin compression as interest earning assets repriced immediately while some funding instruments did not reprice or had a delay in their repricing.

Notwithstanding the aforementioned and the material impact it had on Bank Windhoek, the Group's net interest income before impairment increased by 2.3% to N$2.1 billion, emphasising the importance of a diversified group.

The 275 basis points cut in Namibia resulted in a year-on-year lower increase in net interest income of 1.7% to N$1.69 billion at Bank Windhoek and a decrease in its interest margin from 4.6% to 4.3%. The impact on the interest margin could have been worse if it is wasn't for the bank's very active and deliberate repricing of the funding book.

Bank Gaborone's net interest margin reflected a significant improvement from 4.1% in 2019 to 4.6% in 2020. This was mainly as a result of a better funding mix, while also growing the loan book at a higher rate than funding. This is reflected in the loan-to-funding ratio increasing from 83.6% in 2019 to 90.8% in 2020. As a result, net interest income increased by 31.0% (BWP56.7 million) year-on-year.

Entrepo's interest margin improved mainly as a result of the 275 bps interest rate cuts experienced in Namibia over the period. Unlike the banking entities, Entrepo's loans are granted at a fixed rate, while funding is obtained at a variable rate, leading to assets repricing at a much lower rate than funding.

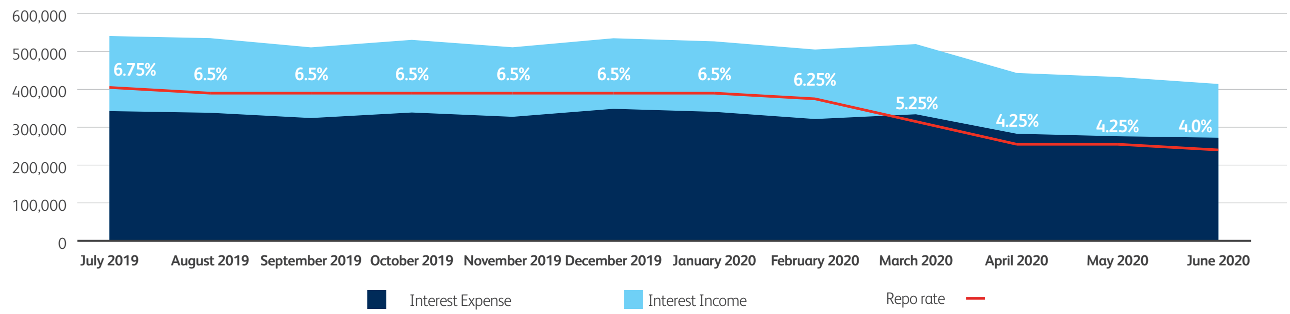
Non-interest income

Despite a difficult operating environment and material impact from lockdown measures on financial activities, the Group's non-interest income performed strongly and increased by 11.7% year-on-year. Growth was mainly due to the following:

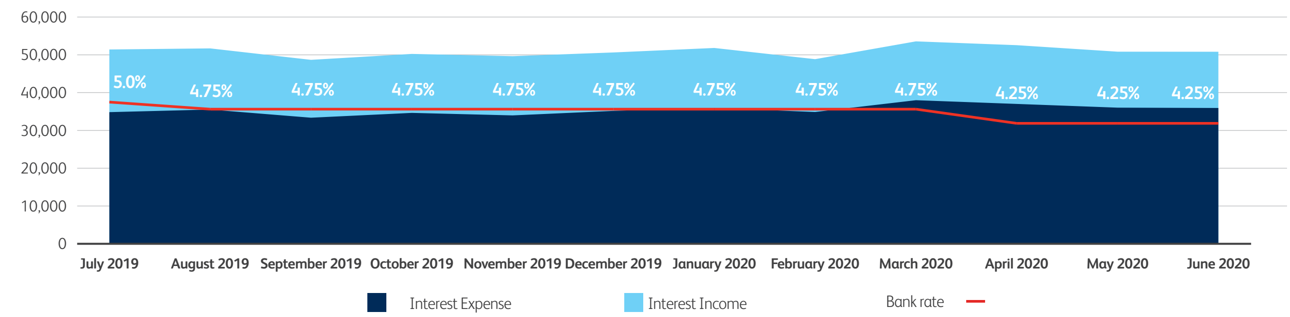
- Bank Windhoek's non-interest income increased by 2.4% to N$985.8 million. This followed good growth in digital channel income of 7.7% as more clients transitioned to this form of banking. Furthermore, treasury income also performed very well with an increase of 2.5% to N$79.5 million.
- Bank Gaborone's non-interest income increased by 6.3% to BWP61.8 million. Transaction-based fee income was significantly affected during April and May as a result of the imposed lockdowns both globally as well as in Botswana, but returned to pre-COVID-19 levels by June signaling a positive trend for the next financial year.
- Capricorn Asset Management's assets under management ("AUM") recovered from a N$50 million outflow and N$225 million market value drop in March 2020 at the onset of global lockdowns, to close out the financial year with an all-time high AUM of N$31.3 billion. As a result, asset management fee income increased by 14.6% to N$135.4 million.
- Entrepo increased non-interest income with 22.7% to N$185.8 million. This is in line with the ambitious growth targets, despite the pandemic having an estimated negative impact on insurance premiums of N$15.3 million during the last quarter of the financial year.

Interest rate cuts	August 2019	February 2020	March 2020	April 2020	May 2020	June 2020	Total
Bank of Namibia interest rate cuts (basis points)	25	25	100	100		25	275
Bank of Botswana interest rate cuts (basis points)	25				50		75

Bank Windhoek interest income vs repo rate (N$'000)



Bank Gaborone interest income vs bank rate (BWP'000)

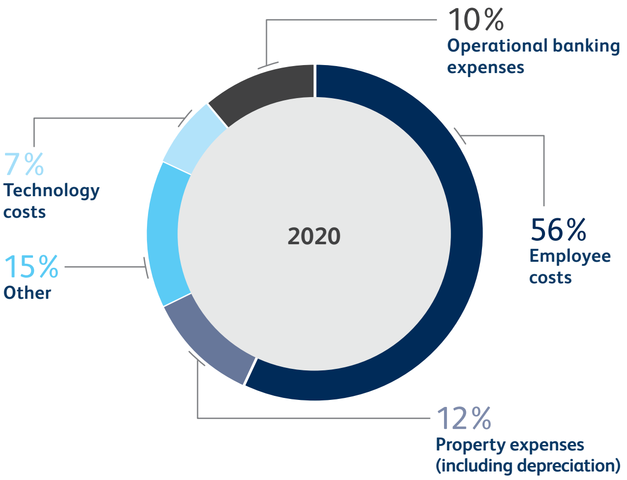


Operating expenses increase limited to 3.4%

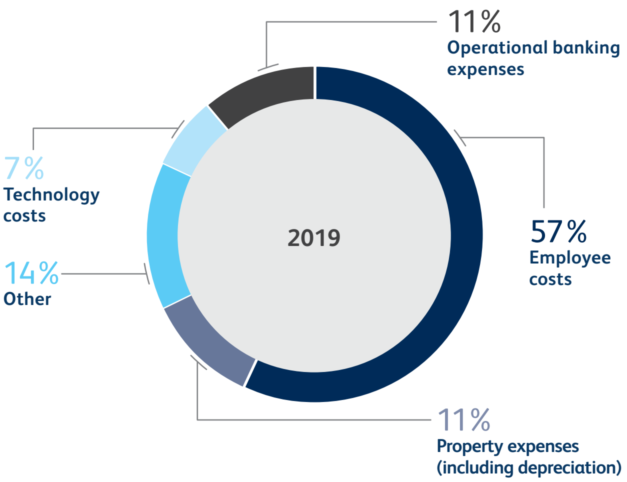
Costs were well managed given the nature of the economic shock caused by the pandemic. We target a cost-to-income ratio of less than 60% which means that we had to aggressively cut costs as income levels started decreasing during the last quarter of the financial year. We achieved a ratio of 59.4% (2019: 60.8%).

Operating expenses contain a large percentage of fixed costs that could not be adjusted in line with lower income. This mainly includes employee costs, other expenses related to branch and back-office functions and technology cost that mainly relate to licence fees. Additionally, expenses denominated in US dollar, such as software licensing expenses and systems support, increased following a significant weakening in the exchange rate.

Operating expenses breakdown



Operating expenses breakdown



Operating expenses increased by 3.4% to N$1.9 billion (2019: N$1.84 billion):

- Employee costs increased by 6.2% – a muted increase notwithstanding the fact that we increases our IT headcount by 29 with the increased focus on delivering more digital services
- Technology costs increased by 36.6% mainly due to the weakening of the operating currencies against the US dollar
- Operational banking expenses increased by 11.8% to N$206.0 million (2019: N$184.2 million) mainly due to increased costs related to properties in possession as well as increased transaction volumes
- Travel and accommodation decreased by 28.1% as no travel was allowed during the last quarter of the financial year

How are we maintaining capital depth?

We manage capital within regulatory requirements in a way that safeguards our ability to continue as a going concern, balanced with the Group's needs in terms of growth ambitions and associated investments. A strong capital position is essential to support the Group through an economic shock such as COVID-19.

The Group remains well capitalised with a total risk-based capital adequacy ratio of 14.7% (2019: 14.9%), well above the minimum regulatory capital requirement of 10%. At the end of the financial year, Bank Windhoek and Bank Gaborone's capital were also in strong positions:

	Required minimum ratio	Actual ratio at the end of the financial year
Bank Windhoek	10%	14.9%
Bank Gaborone	12.5%	16.4%

Based on the ICAAP assessment performed in September 2019, which includes a capital projection for the next five years, we expect the Group to maintain its capital ratios and to not require additional capital.

We have further capital support options via our two shareholders of reference, the GIPF and CIH who made available liquidity buffer and dedicated contingency funding facilities to mitigate financial risk and to provide sustainable and stable funding.

The regulators announced a relaxation of capital adequacy requirements as part of a stimulus package to counter the economic effects of the COVID-19 pandemic. The Bank of Namibia reduced the capital conservation buffer rate on 26 March 2020 to 0% for at least a 24-month period to support banking institutions to supply credit to the economy. The Bank of Botswana reduced the minimum capital adequacy ratio from 15% to 12.5% for the same reason. No relief in terms of capital requirements was available to Cavmont Bank.

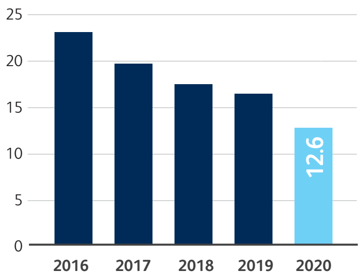
Cavmont Bank

Following the announcement of the sale of Cavmont Bank to Access Bank Zambia, the former's results are treated as a discontinued operation in the annual financial statements. Cavmont Bank's income and expenditure are disclosed separately from continued operations for both the current and comparative periods. All assets and liabilities pertaining to Cavmont Bank are disclosed separately as held for sale on the statement of financial position as at 30 June 2020.

Cavmont Bank incurred losses in the current year of ZK152.1 million (N$155.7 million), which represents a significant increase over the loss after tax of ZK16.1 million (N$19.8 million) of the prior year. Included in the loss of the current year is ZK28.1 million restructuring costs, while abnormal foreign exchange losses of ZK23.5 million were incurred. Impairment charges increased to ZK22.9 million, consisting of an IFRS 9 economic overlay charge of ZK9.8 million and a charge of K7 million on stage 3 impairments as a result of a deteriorating US$-based non-performing book. A ZK63 million deferred tax asset was written off in anticipation of the sale of Cavmont Bank to Access Bank Zambia.

The new normal is expected to have a lasting impact on banks' ROE

Return on average equity (%)



Towards the end of 2019 analysts estimated that only half of the world's largest 50 banks would achieve double-digit ROE figures in 2020, though the current economic trajectory is likely to see this number erode. This is according to EY in their 2020 report: *Banking in the new decade*.

An increased return on equity over time is the outcome of a combination of key indicators and the overall measure of a bank's success.

The Group achieved a ROE of 12.6% (2019: 16.3%) as a result of the following:

- Net interest income constituted 44.5% of operating income – lower than our target and significantly muted by the impact of COVID-19 measures on customers.
- Net interest income after impairment was impacted by the margin compression as a result of the steep interest rate cuts and significant increase in impairments mainly due to future economic overlay applied.
- The cost-to-income ratio was 59.4% – higher than expected due to the lag in the reprice of funding, higher impairments due to the pandemic and a large portion of the Group's cost being fixed and not able to adjust significantly, but reduced with the disclosure of Cavmont Bank as a discontinued operation.
- The ratio of non-performing loans as a percentage of loans and advances is on an increasing trend as a result of the economic devastation caused by the pandemic on top of a recessionary economy. This year, the ratio was 4.7% compared to our target of less than 4.5%. However, this remains moderate compared to industry averages in the region.
- The loan-to-funding ratio of 87.9% is within risk appetite.
- Entrepo, CAM and Paratus were not significantly impacted by economic challenges and continued to perform well.
- The divestment in Cavmont Bank and the restructure of Capricorn Capital is expected to have a positive impact on ROE in the next financial year.

Taking the above into account, Capricorn Group delivered resilient returns under volatile conditions, and outperformed competitors. To maintain this position, we continue building on the strength of our diversified operations and revenue streams while investing in digital and data to enhance the client experience.

Impact of COVID-19 on profit before income tax

	2020	2019	Variance	Var (%)
Profit before tax from continued operations	1,366,890	1,422,902	(56,012)	(3.9%)
Net interest income impact	97,972			
Non-Interest income impact	44,291			
IFRS 9 COVID-19 Overlay	136,417			
Adjusted profit before tax from continued operations	1,645,570	1,422,902	222,668	15.6%

Strategic investments

On 1 July 2019, the Group concluded a 30% acquisition in Paratus Group Holdings Ltd ("Paratus"). Through our shareholding in Paratus and its subsidiaries and associates, Capricorn Group now holds an interest in Paratus entities in six African countries and delivery services to more than 20 countries across Africa. This is in line with our long-term ambition and strategic choices to transform the business using data and digital, and to grow and diversify through entrepreneurial action. This will increase opportunities for market penetration and expansion.

Subsequent to year-end, Paratus announced a N$260 million transaction with Google to be the landing partner for Equiano in Namibia. This will offer true redundancy to carriers heavily reliant on the West Africa Cable System ("WACS") and will be the fastest connection from Europe to southern Africa.

Paratus is aggressively growing its infrastructure footprint across the continent. It is the only information and communication technology company that can provide redundancy on both the WACS and the Eastern African Submarine Cable System ("EASSY") under one single autonomous system that does not run through South Africa.

Our long-term investment in associates Sanlam and Santam continues to create value for the Group through synergies, bancassurance offerings and income from our investment.

Dividends

The Group declared a final dividend of 20 cents per ordinary share. Considering the interim dividend of 30 cents per ordinary share, this represents a total dividend of 50 cents per ordinary share (2019: 66 cents per ordinary share). The total dividend per share for the year under review is 24.2% lower than the total dividend per share declared for the previous financial year. We believe that the total dividend balances prudency with a fair dividend yield for shareholders.

In determining the final dividend, the Group has taken a number of factors into account, which include:

- Preservation of capital and liquid asset positions given, not only the current economic environment, but more importantly the negative future economic outlook
- The call by bank regulators to restrict dividend payments. As a consequence, Bank Windhoek's final dividend to the Group was 45% lower than the previous year
- The need of our investors for cash returns in a low interest rate environment and a depressed economy where income and earnings are under severe pressure

Dividend payment details

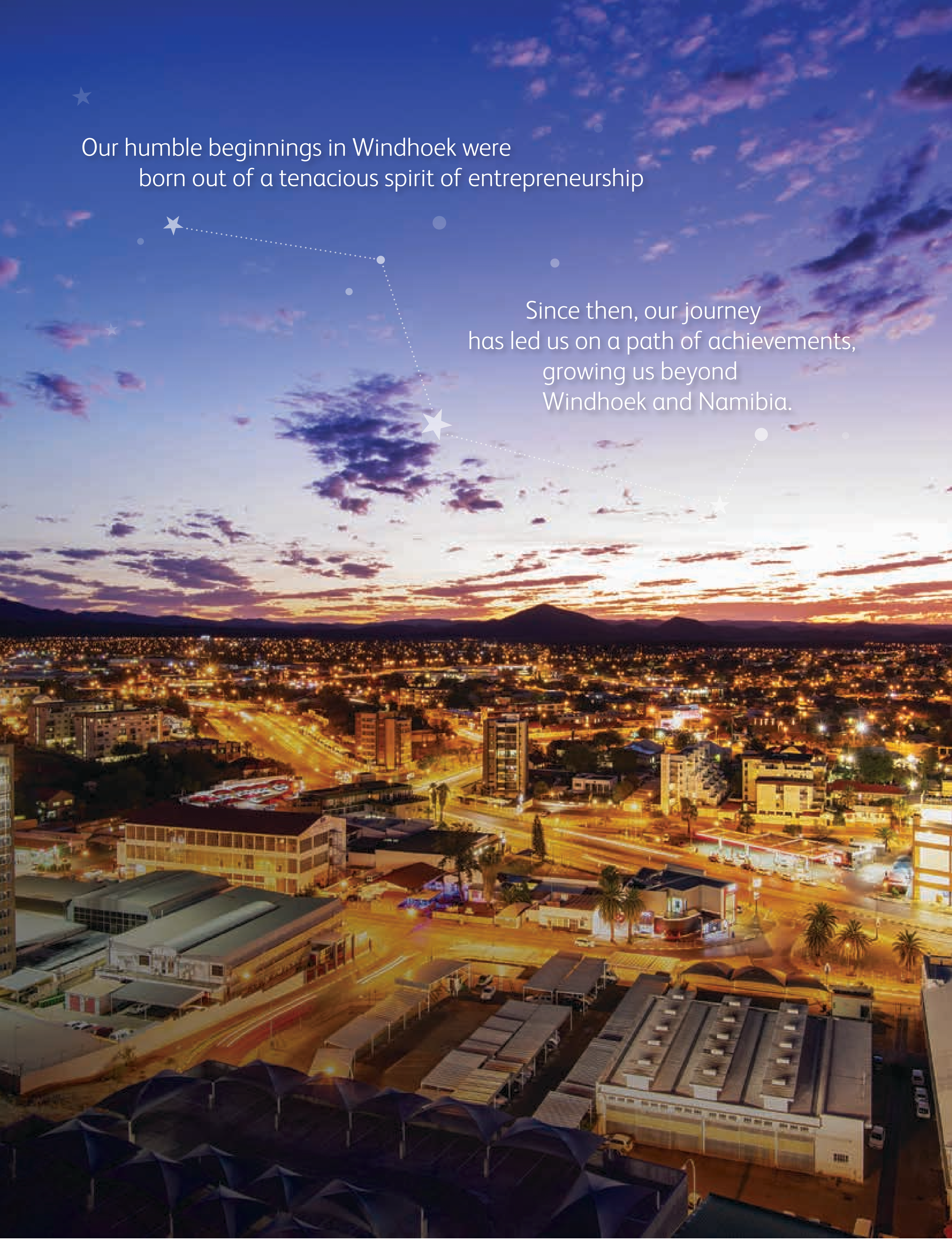
- Last day to trade cum dividend: 9 October 2020
- First day to trade ex-dividend: 12 October 2020
- Record date: 16 October 2020
- Payment date: 30 October 2020

Jaco Esterhuyse

Financial director

Our humble beginnings in Windhoek were
born out of a tenacious spirit of entrepreneurship

Since then, our journey
has led us on a path of achievements,
growing us beyond
Windhoek and Namibia.



STRATEGY AND MATERIAL MATTERS

Our strategy aims to build sustainable competitive advantage in the countries we choose to compete in. We evaluate the sustainability of our strategic purpose by our ability to win: measured among others through market leadership, which can be growth in a specific segment, or by growing market share at a faster rate than competitors.

Our operating context: a year of falling fortunes

At the outset of the financial year the macroeconomic landscape was challenging. However, even in the midst of recessionary conditions, there remained a sense that we were in a bottoming-out phase. Since then, of course, the bottom, literally, fell out.

At the time, credit growth in Namibia was above 8%, and expectations were that it would continue to grow at similar rates. In Botswana it grew at 7.1% and in Zambia at 31%. Non-performing loans in Zambia were on a firmly improving trend. At the time, we expected GDP growth in 2020 of 1%, 4.1% and 3% for Namibia, Botswana and Zambia, respectively.

Commodity prices were generally firm and rose somewhat until early 2020. For instance, the copper price rose from about N$5,900 per ton to N$6,270 over the second half of 2019. Over the same period the oil prices firmed from N$62 to N$70. Trends in commodity markets such as copper, oil and diamonds remain keys to the fortunes of the region.

Currencies were relatively stable. Over the second half of 2019 the Botswana pula and Namibian dollar were virtually flat, while the Zambian kwacha depreciated by only 10% versus the US dollar. It appeared as if the rate of depletion of foreign exchange reserves in Zambia was slowing.

That is not to say that all was well on the fiscal front. Recession and drought played their part in straining government finances. Overspending and weak revenue growth resulted in climbing deficits. However, the order of magnitude was still manageable. That is, with the expectation that economies were on the mend.

The global economy experienced a mini upcycle as consumer confidence held up reasonably well and leading indicators were heralding better times ahead. The Federal Reserve of the USA was confident enough in the economy that it largely held interest rates steady. Unemployment in the USA was at an all-time low and inflation fears were absent.

In summary, macro-conditions were in an uneasy and fragile equilibrium until COVID-19.

The financial year as a whole will be typified by what happened in its latter quarter. An unprecedented hard stop of economic activity was imposed globally, regionally and domestically by the announcement of various types of states of emergency and lockdowns on the movement of people and goods and services in reaction to COVID-19.

Travel and tourism stopped. Mines and factories came to a virtual stand-still. Construction activities were halted, the demand for electricity dropped sharply and transport services were severely curtailed. Wholesale and retail activity were temporarily boosted by panic buying before it was hit by the absence of feet in malls. The demand for credit slowed precipitously, leading to contractions in financial services.

Equity, capital, commodity, foreign exchange and money markets all reacted violently. The market sell-off's and economic carnage are as bad, if not worse, than serious previous meltdowns, even the Great Depression of the 1930s. For instance, unemployment in the USA rose to an unprecedented 14.7%.

The Namibian dollar (-21%), the Botswana pula (-10%) and the Zambian kwacha (-29%) have all dropped sharply compared to the US dollar. Commodity prices fell hard. The oil price, having fallen below US$10 at one stage, is still 42% below where it started the year. The copper price recovered most of its losses but was down 25% at one point.

The policy response was unprecedented in its scope and speed. Led by the Federal Reserve, central banks cut interest rates sharply. The Federal Reserve cut its rate to virtually zero from 1.75%, having maintained a rate of 2.5% as late as the middle of last year. It also announced a virtually unlimited quantitative easing programme that entails large-scale purchases of fixed income securities in the secondary market. This means that defaults by investment grade entities are unlikely.

Namibia and South Africa also cut lending rates aggressively. Two cuts of 100 bps each were done outside of regularly scheduled meetings, after having lowered rates twice by 25 bps in the foregoing months. By June 2020 the Bank of Namibia has lowered rates by a cumulative 300 bps since the start of the cutting cycle. It is likely that this trend will continue, albeit at a slower pace. This will, in time, assist the economy but squeezes banks' margins substantially.

The Bank of Botswana continued its rate cutting cycle. The bank rate has now halved over the past seven years from 9.5% to 4.25% as inflation fell away from 9.0% to below 2.0% of late. Inflation in Namibia also remained very subdued. It decreased from 3.9% at the start of the financial year to 2.1% in June. This is in line with the global phenomenon of ever lower inflation pressures emanating from general economic weakness and changing production and consumption patterns.

While monetary policy-makers pulled out all the stops, it has become clear that fiscal policy will have to step in to stabilise final demand. The USA approved a stimulus bill of U$2 trillion. Add this to the deficit of U$1 trillion, and the total deficit equals 15% of GDP. In South Africa, a fiscal package of ZAR500 billion was announced. Not all of it will have a direct cash flow impact, but the country's original total budget deficit was ZAR350 billion.

Similarly, in Namibia, a plan worth N$8.1 billion was announced, the equivalent of 4.5% of GDP. In the face of falling revenue due to widespread economic weakness, the shortage was already expanding above budget, and the latest estimate amounts to 12.5% of GDP. The resultant debt-to-GDP ratio is fast approaching 70%. This means that fiscal metrics have worsened substantially.

Creditworthiness would have, understandably, suffered further in the region. South Africa lost its last remaining investment grade rating, Namibia's sovereign rating was pushed deeper into non-investment grade and Zambia is being regarded as in, or on the verge of, default. Reflecting this view is the 2022 maturity Eurobond that trades at a yield of 52%. Botswana's rating was pegged back a notch by Standard & Poor's ("S&P") but remains at investment grade.

The earlier positive growth outlook for 2020 has been replaced by expectations of deep economic contractions of (6.9%) in Namibia, (5.4%) in Botswana and (3.5%) in Zambia.

Floris Bergh
Chief economist
Capricorn Asset Management

We connect material matters to risk and strategy processes

Capricorn Group's ability to create value over the short, medium and long term relies on the Group's response to those matters that can materially affect us – positively or negatively. We assess our operating context, business trends and stakeholder feedback to continuously evaluate these matters. We describe these external and internal factors in other sections of this report.

We first identified the Group's material matters in 2016 and have since integrated the process of identifying, reviewing and evaluating our effective responses with our risk and strategy processes. The eight material matters are linked to our principal risks, and board governance oversight accountability is assigned to each. Material matters are discussed at the quarterly Group principal risk officer ("GPRO") meetings and the business unit strategy sessions.

The board approved the material matters for 2020 as part of the AsOne2023 strategy in May 2020. The material matters remained largely the same as in 2019, with our top matter becoming even more pertinent in the past year.

Capricorn Group material matters at a glance

- Ethical leadership (business and management)
- Credit risk management and mitigating losses due to bad debt
- Financial and cybercrime
- Meeting customer needs and expectations
- Demand for specialist skills driving focused development, training and diversity
- Responding to a changing regulatory and operating context
- Fintech, insurtech and evolving digital assets
- Enhancing and optimising management and operational systems

Ethical Leadership (business and management)

Ethical conduct is the foundation for a sustainable business. Ethical leadership means setting the tone from the top. The recent corruption scandal in the fishing industry highlighted the scale, complexity and widespread acceptance of unethical practices in Namibia. This is to the detriment of social, economic and environmental development of our society.

We want to contribute to eradicating corruption and fraud. Capricorn Group is committed to doing the right thing as defined by our Group Code of Ethics and Conduct Policy and the behaviours set out in The Capricorn Way. Our suppliers are required to adhere to the Suppliers' Code of Conduct.

The Group board, through the approved qualitative risk appetite statement, is explicit in its zero tolerance of unethical conduct. Boards of Group legal entities and employees are made aware of their obligations to manage all types of risk, including ethics risk through our practical and case study-oriented Risk Culture Building Programme.

The Group board has mandated the board sustainability and ethics committee ("BSEC") to oversee the implementation of the approved ethics strategy and management plan to cultivate an ethical culture in the Group. The desired outcome of the ethics strategy is an ethical Group culture in which employees find it easy to do the right thing when no one is watching and embrace and live the organisational values.

Noteworthy deliverables against the ethics management plan are:

- The implementation of a Group-wide tip-off line managed by Deloitte's to ensure anonymity and protection for whistleblowers. The tip-off line has been rebranded as an effective and trusted safe reporting mechanism for fraud and other unethical conduct.
- The implementation of a Group-wide awareness campaign aimed at starting conversations around good ethical behaviour and doing the right thing. The campaign makes use of various channels of communications, including emails, the AsOne newsletter, the intranet, leveraging of the Connector Programme and also tangible points of contact such as banners and keyrings.
- The Ethics Institute of South Africa has been mandated as an independent consultant to conduct an ethics risk assessment. This is an important step in managing ethics. It measures the Group's mode of ethics management and produces an ethics risk profile. Through the assessment the Group's ethics risks and opportunities are determined. The Group's ethics profile will inform the ethics strategy going forward. The strategy will aim to mitigate negative risks and build on positive risks to enable the Group to enhance its ethical culture.

All internal and external fraud incidents are reported to the forensic department and investigated. Remedial recommendations are made to the relevant business unit executive. Significant fraudulent incidents are reported and discussed at various risk committees to understand what went wrong and to introduce preventive measures.

In the BSEC report we explain governance mechanisms and progress in establishing and monitoring an ethical culture. These include:

- Implementation of a three-year ethics strategy and management plan
- An annual independent ethics risk assessment
- Internal promotion of the anonymous Group-wide tip-off line

STAKEHOLDERS THAT HAVE AN INTEREST IN THIS MATTER

Employees

Shareholders

Customers

Government and regulators

Strategic alliance partners

Media

RELATED STRATEGIC CHOICES

- Building our foundation
- Win through operational excellence

RELEVANT PRINCIPAL RISK

People
Compliance
Reputation
Operations

BOARD OVERSIGHT

BARC

BSEC

Group board human resources ("HR") committee

Remuneration committee ("Remco")

Group chairman's message on page 10

BSEC report on page 96

Credit risk management and mitigating losses due to bad debt

The shock of the COVID-19 pandemic, on top of three years of prolonged economic stagnation in the region, drought, electricity supply constraints, low business confidence and rising unemployment, led to a substantial increase in credit risk and subsequent rise in non-performing loans and provisions for bad debt. This is despite economic stimulus and relief packages to support businesses, households and government service providers during lockdown periods. Relief measures included interest rate decreases and loan repayment moratoria (repayment holidays).

In the risk report, we address the potential impact and mitigating actions. These include:

- Measures taken by our banks to prevent non-performing loans through selective lending and active provision management
- Improved collections by developing supporting tools
- Forward-looking risk management through early identification of accounts at risk and pre-emptive customer engagement with signs of distress

In response to the COVID-19 pandemic and the impact on our customers, we responded as follows:

- We engaged the top 100 borrowing clients proactively in the most affected industries (tourism, transport, retail) to determine how Bank Windhoek can assist them
- Extended reviews for two months where information was still outstanding
- Determined the potential consequences of Force Majeure/Acts of God on our loan agreements and facility letters
- Determined the possibility of deferments, refinancing and extensions of credit agreements

In the financial director's review, we elaborate on the impact of non-performing loans on financial performance for the financial year. This includes a section on investor concerns and outlook.

STAKEHOLDERS THAT HAVE AN INTEREST IN THIS MATTER

Shareholders

Customers

Government and regulators

RELATED STRATEGIC CHOICES

★ Building our foundation
★ Win through operational excellence

RELEVANT PRINCIPAL RISK

Credit
Capital
Liquidity
Market
Finance and tax

BOARD OVERSIGHT

BARC
BCC

Financial director's review from page 31

Risk report from page 69

CASE STUDY

Namibian risk managers affirm Capricorn Group material matters

Capricorn Group partnered with the Ministry of Finance to carry out a two-day risk management workshop in March 2020. The workshop, attended by 30 security and risk management services personnel from seven ministries, was designed to meet a need identified by government to acquire more knowledge on risk management and governance, as risk management divisions are becoming key in all ministerial offices.

At the event, we asked representatives to provide us with feedback on our engagement with them, how the Group impacts them and what their information needs are.

For many participants it was their first engagement with the Group, and the start of a journey of collaboration. Capricorn Group is seen as a partner in upskilling people in risk management, with the potential to share more in areas of common interest such as customer service and cybersecurity. Participants appreciated the Group's knowledge, good coordination and assistance.

We used the opportunity to test the robustness and relevance of our eight material matters with this stakeholder group. Feedback indicated that participants regarded all material matters as either important, very important or critical.

Financial and cybercrime

Financial crime refers to crimes committed with the purpose of converting ownership of property in an unlawful manner for someone's own personal benefit. Cybercrime on the other hand refers to a method of committing crime using a computer and network for one or more purposes including financial crime. Money laundering is one of the most serious forms of financial crime.

An increase in cyber-related crimes was evident during the COVID-19 pandemic as part of a growing threat internationally, due to increased use of personal devices and remote working infrastructure which created or increased certain vulnerabilities. Continuous assessment, monitoring and security improvements are required to protect data and assets.

According to the Bank of Namibia's Economic Outlook Update from April 2020, the amount of fraud perpetrated through various payment streams is increasing. The scale and complexity of financial and cybercrime is rising, which jeopardises the stability and security of the financial services system.

Namibia is among the most exposed countries to cybercrimes. This is mostly attributed to a lack of regulations, laws and policies dealing with cyber-related crimes, malware attacks, vishing (voice phishing) and social engineering-related crimes which have, as a consequence increased significantly.

Our banks use international systems that support the processing of financial intelligence information, analyse large volumes of data and report suspicious money transactions.

In the risk report, we explain how we approach technology risk through cybersecurity. Salient features in improving cybersecurity and addressing cybercrime include:

- Internal and external awareness campaigns assisted in higher vigilance
- An Information Classification Framework was approved by the Capricorn Group risk committee in February 2020
- Risk practitioners collaborated across subsidiaries and with industry stakeholders to share knowledge and practices

On a global scale, the Financial Action Task Force ("FATF") tests anti-money laundering ("AML"), Combating the Financing of Terrorism ("CFT") and Counter-Proliferation Financing ("CPF") capabilities per country against a set of standards. Namibia is scheduled for the 2020/21 FATF/ Southern African Anti-Money Laundering Group ("ESAAMLG") mutual evaluation later this year. The off-site desk review commenced, and the on-site visit will be conducted in November 2020. The draft report will be discussed by ESAAMLG in September 2021.

The mutual evaluation will focus on the following:

- Namibia's AML/CFT/CPF system and its effectiveness
- The implementation of said system to ensure risk exposure is effectively identified, assessed, understood, addressed and mitigated
- An assessment of whether the key objectives of the national AML/CFT/CPF system has been achieved, the financial system and broader economy is protected from related threats, financial sector integrity is strengthened and contributes to overall safety and security

Gross Losses due to financial crime decreased to N$2.7 million (2019: N$2.8 million) while net losses decreased to N$2 million (2019: N$2.8 million).

STAKEHOLDERS THAT HAVE AN INTEREST IN THIS MATTER

Customers

Government and regulators

Shareholders

RELATED STRATEGIC CHOICES

- Building our foundation
- Win through operational excellence

RELEVANT PRINCIPAL RISK

Technology
Reputation
Operations
Compliance
People

BOARD OVERSIGHT

Group board information technology committee ("GBITC")

Risk report from page 69

Meeting customer needs and expectations

Customer-centricity means delivering the brand promise to customers across every interaction and touchpoint. It requires unique and differentiating customer experiences. We have to focus on the problems we can solve for our customers, how we can deliver value and retain them for life. The availability and use of data management, statistics and analytical modelling are essential to understand needs. Customer complaints are a valuable source to uncover expectations and reveal improvement opportunities.

We monitor all social and media channels as part of reputation risk management, and to inform relevant customer initiatives, making sure we invest in the areas that have a real impact on improving customer experiences.

We developed and introduced new products to meet customer needs:

- Bank Windhoek launched the Selekt Gold and SelektSaver products for the retail affluent segment, introduced a bundled fee and embedded bancassurance
- A revised and enhanced student loan product offers an increased study amount in line with current tuition and study fees in the market
- Bank Windhoek introduced an account for Namibia Students Financial Assistance Fund study grant recipients
- Bank Gaborone launched two new retail products and five new market identifier code ("MIC") loan options to councillors and government employees
- Cavmont Bank launched SPENN, a mobile money application, in February 2020. Read more about this in the case study on page 26

We also made progress in meeting customer needs and expectations through the following operational improvements:

- External market research to provide data-driven content was completed for Bank Windhoek and Cavmont Bank
- At Bank Windhoek, the turnaround time for instant card issuing has been reduced from three days to seven minutes and the service acquisition turnaround time improved from 90 to 35 minutes
- Total merchant profiles at Bank Windhoek increased with more than 180
- Bank Gaborone opened three new branches with all brand renovations in the Group aligned to the "branch of the future" concept
- Bank Gaborone activated six new ATMs and Bank Windhoek activated nine
- Bank Windhoek issued more than 350 point-of-sale devices with more than 100 new merchants created. More than 250 new point-of-sale devices were deployed by Bank Gaborone and more than 80 new merchant profiles were created
- Cards can now be issued instantly at Bank Gaborone, compared to a waiting time of up to 14 days previously
- At Bank Gaborone and Cavmont Bank, several back-office processes were centralised, reducing customer complaints relating to errors and processing delays
- A new queue management solution was implemented at three branches (Mariental, Ongwediva, Lifestyle) and self-service kiosks placed at eight branches (Mariental, Ongwediva, Oshakati, Lifestyle, Main Branch, Maerua Mall, Swakopmund and Walvis Bay)
- New brand signage was completed for Bank Windhoek branches and offices, giving a visual impression of a progressive local bank

STAKEHOLDERS THAT HAVE AN INTEREST IN THIS MATTER

Customers

Government and regulators

Shareholders

Communities

Strategic alliance partners

RELATED STRATEGIC CHOICES

★ Building our foundation
★ Win through operational excellence

RELEVANT PRINCIPAL RISK

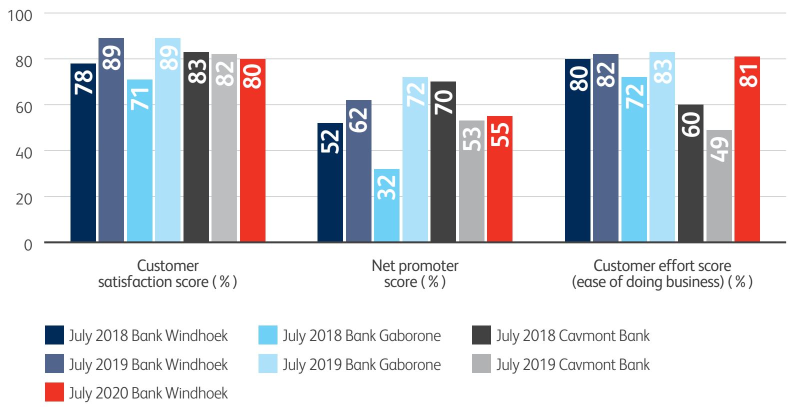
Reputation
Strategic
Operations

BOARD OVERSIGHT

BSEC

Group CEO's report from page 23

Customer satisfaction ratings (%)



Bank Gaborone and Cavmont Bank did not participate in the 2020 DSQ research and therefore no data is available for these two banks for 2020.

Demand for specialist skills driving focused development, training and diversity

We recognise the value of building a positive employer brand to instil brand pride and awareness among our employees.

The Group prioritises employing the right people in the right positions and also invest in acquiring, building and developing talent. However, our priority is to leverage and develop internal talent for future needs. We recognise the limitation in relying only on the external market to fill a growing skills gap.

In an attempt to keep our employee skill sets relevant, we partnered with the University of Stellenbosch for tailor-made management programmes. Thirty employees are currently enrolled for the New Manager Development Programme, and 30 employees have completed the Manager Development Programme.

In addition, we partnered with the Renewables Academy based in Germany, where three employees completed training in sustainable financing.

We furthermore collaborated with accredited coaches as part of our leadership development offering to support leaders in achieving their own goals and objectives as well as supporting their team to do the same. The opportunity was extended to 55 executives and 67 senior management across Capricorn Group entities.

As part of upskilling the youth we have allocated bursaries for four students, of which the study fields vary between commerce, computer science, investment management and technology degrees. These individuals will join the Graduate Development Programme once they complete their studies. Parallel to this, we employed five interns.

Bank Gaborone's graduate programme has seen three out of nine candidates absorbed into permanent roles before the end of their contracts. This programme has enabled the business to address existing skills gaps.

Strategy implementation, performance management and recognition

Successful implementation of our strategy relies on employees that understand the strategic choices, are clear about their role and contribution, and are incentivised to deliver on targets. Therefore, we must ensure that our internal communication, rewards and recognition, employee value proposition, training initiatives and performance management are aligned and support implementation.

The performance development process ensures we align the Group's goals with those of individual employees. We identify, evaluate and enhance the performance of employees through rewards and recognition, regular feedback and career guidance.

The human capital team provides continuous communication and support to upskill leaders. We want them to have honest, transparent and future-focused developmental conversations with employees in terms of their careers and well-being.

An automated performance development process was rolled out in June 2019. Performance reviews and actions are completed online, and employees are encouraged to do 360-degree feedback as part of the process. The online recognition system, Sparkfolios, consists of four different types of rewards:

- Thank you (non-monetary)
- On-the-spot award: manager to team member on-the-spot rewards (monetary)
- Quarterly award: award by a business unit nominations committee (monetary)
- Annual award: award by entity nominations committee (monetary)

We measure diversity through our rating by the Namibian Preferential Procurement Corporation. The Group achieved 98.87% (exceptional equitable economic empowerment level contributor status) in 2020.

STAKEHOLDERS THAT HAVE AN INTEREST IN THIS MATTER

Employees

Shareholders

Communities

RELATED STRATEGIC CHOICES

★ **Building our foundation**
★ **Win through operational excellence**

RELEVANT PRINCIPAL RISK

People
Compliance
Reputation

BOARD OVERSIGHT

Group board HR committee
Remco

Group CEO's report from page 23

Capricorn Group employee profile	Permanent employees	% male	% female	% permanent of total employees	% contract	Total 2020	Total 2019
Namibia*	1,749	37	63	97.5	2.5	**1,793**	1,749
Botswana	305	35	65	97.44	2.24	**313**	317
South Africa	8	62.5	37.5	42	58	**19**	23
Zambia	231	54.3	44.9	98.7	1.3	**234**	317
Total and average %	2,293	47.5	52.5	83.8	16.2	**2,359**	2,386

* *Includes employees for head office, Bank Windhoek, CAM, Namib Bou and Capricorn Capital.*

Group indicator	2020	2019	2018
Female permanent employees (%)	**63**	64	63
Racially disadvantaged permanent employees (%)	**78**	78	78
Women in senior management (%)	**45**	32	30
Women in middle management (%)	**59**	60	60
Racially disadvantaged employees in senior management (%)	**39**	34	30
Racially disadvantages employees in middle management (%)	**66**	64	61
Non-Namibian workforce (%)	**2**	2	2
New employees age <24 (%)	**14**	15	28
New employees age 25 – 35 (%)	**71**	62	52
New employees age 36 – 45 (%)	**14**	15	11
New employees age 46 – 55 (%)	**0**	8	9
Staff turnover annualised (%)	**5**	5	6
Training hours Bank Windhoek, CAM and Namib Bou (hours)	**1,824**	2,248	2,600
Training hours Bank Gaborone (hours)	**2,558**	3,168	3,304
Training hours Cavmont Bank (hours)	**2,120**	3,100	400
Total investment in training (N$ million)	**7.1**	23.6	18.5
Diversity score from the Namibia Preferential Procurement Corporation (%)	**98.87**	98.34	98.16

CASE STUDY

Keeping safe connections

Employees are the core of our business, and they had many questions, fears and anxiety regarding the COVID-19 pandemic. With many decisions being taken on short notice, one of our key success factors was proper and rapid communication to employees.

The MyCapricorn internal employee mobile site proved to be an essential platform. Although still in its infancy, the platform enabled employees to stay abreast of latest developments and proactive measures we were taking.

Employees were alerted to important updates by way of SMS. By logging in via mobile devices, they could read what management had decided before returning to work. Thus, they were prepared about expectations, available help and what needed to be done. Employees can ask questions on the site relating to aspects they may be unsure about, including how to inform their supervisors of travel arrangements, emergency numbers and frequently asked questions.

In making use of online technology that is easily accessible and understood by our employees, MyCapricorn served as an innovative communication tool for employees who work remotely.

Concerted efforts are underway to modernise the learning infrastructure. The aim is to gradually shift the face-to-face versus online learning ratio in favour of online learning.

Responding to a changing regulatory and operating context

The COVID-19 pandemic dominated our operating context and regulatory landscape during the last six months of the financial year. Government and other stakeholders undertook several interventions to soften the impact. We provide a detailed economic overview on page 41, and Capricorn Group's responses are detailed throughout this report.

Regulatory changes in the region are shaped by local socio-political circumstances and government priorities. We support the intent to protect the integrity and stability of the regional financial systems while limiting potential complexity and inefficiencies in business processes. These can drive up cost and impact customers who do not necessarily always understand the need and purpose of regulations.

In addition to regulatory compliance matters, our regional economies are confronted with sustainability challenges, such as climate change, poverty and resource shortages (water, food and energy). While sustainability issues may trigger regulatory responses, they also bring about new opportunities.

We use strategy analysis tools such as a PESTLE analysis (Political, Economic, Social, Technological, Legal and Environmental) to scan the environments in our three countries of operation. This allows us to guide the Group in terms of business implications, opportunities and appropriate actions.

The Group's compliance team tracks, monitors and communicates all pending regulatory changes. Readiness assessments are completed annually based on what bills will be considered by Parliament for implementation in that year. Compliance risk management plans are completed for all commenced core legislation with risks and controls being agreed with accountable executives.

The Risk and Compliance Framework ensures that our regulatory risk profile is reviewed and updated at least annually, or as and when new regulatory requirements are introduced.

We maintain good relations with all regulators as part of a deliberate stakeholder engagement strategy.

STAKEHOLDERS THAT HAVE AN INTEREST IN THIS MATTER

- Customers
- Government and regulators
- Shareholders
- Media

RELATED STRATEGIC CHOICES

- Building our foundation
- Win through operational excellence
- Compete through strategic relationships and partnerships

RELEVANT PRINCIPAL RISK

Legal
Compliance
Strategic
Reputation
Operations
Finance and tax

BOARD OVERSIGHT

BARC

Group CEO's report from page 23

Risk report from page 69

BSEC report from page 96

CASE STUDY

Seven solar projects boosted by Bank Windhoek's green bond

Bank Windhoek became the first commercial bank in southern Africa to issue a green bond and was recognised internationally when it received the Green Bonds Pioneer Award from Climate Bonds in 2019.

The decision to issue a green bond followed earlier initiatives as an implementing partner of the Sustainable User of Natural Resources and Energy Finance ("SUNREF") programme launched by the Agence Françoise de Development ("AFD"). This experience encouraged Bank Windhoek to continue expanding its green lending activities when the country experienced a period of severe drought, increasing energy costs and unreliable electricity imports.

Namibia's relatively hot dry climate and abundant sunlight resource highlighted the opportunity for investment in energy production. This, in turn, supported Namibia's Vision 2030 as per the National Renewable Energy Policy, which aims for energy security by positioning the country to generate 70% or more of the electricity demand from renewable energy sources. The vision is for Namibia to ultimately become a net electricity exporter by 2030.

Bank Windhoek responded by raising alternative funds in the debt market through a local green bond issuance, of which the proceeds were used to finance eligible green projects within the borders of Namibia. Seven solar photovoltaic ("PV") projects were successfully financed within 12 months after the initial green bond issuance.

The green bond was a milestone for Bank Windhoek and Capricorn Group, setting the tone of our commitment to sustainable finance and the growth of renewable energy generation locally and regionally. The green bond issuance created a sustainable investment vehicle for institutional investors and a favourable financing mechanism for customers.

At a debrief session with investors, they unanimously agreed that the green bond should be seen as an important tool for creating public awareness on the links between sustainable development and favourable finance. They are keen to participate in further such initiatives from Bank Windhoek.

Bank Windhoek published its first Green Impact Report in 2020 following the successful disbursement of the proceeds within 12 months after issuance. As part of the Bank Windhoek board resolution and NSX listing requirements, an independent external green bond audit was conducted and we received an unqualified limited assurance report. The report provides details of projects that received funding from green bond proceeds and highlights the core environmental impact indicators on a project level basis as indicated in the Green Bond Framework and according to the International Capital Market Association's Green Bond Principles.

Our aim is to establish Bank Windhoek as the green financier of choice for sustainable projects in Namibia. Thus, we are committed to ensuring adequate access to low-cost debt and other favourable financing mechanisms to enable our customers to transition to a low-carbon, climate-resilient environment.

GREEN BOND

WHAT?

A green bond is a fixed term interest-bearing financial instrument issued to raise funding for specific projects.

WHY?

To raise funds and allow investors to participate in financing environmentally friendly projects throughout Namibia.

HOW?

The bank issues the bond to investors at a competitive market interest rate and in turn applies these funds towards loans that meet the bank's credit evaluation and the green bond eligibility criteria.

Which projects qualify to benefit?

- Renewable energy
- Energy and resource efficiency
- Green buildings
- Sustainable waste management
- Sustainable land use
- Sustainable water management
- Clean transportation
- Climate change adaptation
- Green trade
- Climate smart agriculture
- Non-energy greenhouse gas ("GHG") emission reduction

Fintech, insurtech and evolving digital assets

The interplay between digital, data and customers is disrupting conventional banking and transactional models. New players design flexible and dynamic solutions based on new financing platforms, open banking and cloud-based products and services. We address this through strategic initiatives that focus on transforming our existing entities and explore new digital growth opportunities.

We have a range of projects in ecommerce, distribution, payments solutions, digital banking and biometrics in different phases towards launching. A highlight this year was the introduction of SPENN in Zambia, as profiled in the Group CEO's report.

Our digital platform focuses on evolving the Group's digital assets. A Group digital and information technology advisory committee is being established to provide advice to the GBITC on digital and information technology matters.

The quality assurance forum reviews submissions to the executive management team to ensure proper governance in change management.

Capricorn Group's shareholding in Paratus offers access to new technology and digital infrastructure options. Paratus continues to invest in infrastructure assets, for example, an expanded fibre network in Windhoek, Swakopmund and Walvis Bay.

We are committed to making diverse investments in customer-centric technology and digital assets. This drives the migration of customers to digital banking facilities.

Digital migration indicator	2020	2019	2018
% growth in mobile app use	**46.0**	58.1	58.3
% growth in iBank use	**(8.8)**	(1.5)	5.4
% growth in cellphone banking	**25.1**	23.8	24.1
% growth in point-of-sales	**(3.4)**	5.4	(4.8)

STAKEHOLDERS THAT HAVE AN INTEREST IN THIS MATTER

Customers

Government and regulators

Shareholders

Strategic alliance partners

RELATED STRATEGIC CHOICES

- Building our foundation
- Win through operational excellence
- Compete through strategic relationships and partnerships
- Target technological/ borderless/cyber opportunities

RELEVANT PRINCIPAL RISK

Technology
Operations
Reputation

BOARD OVERSIGHT

GBITC

Group CEO's report from page 23

Financial director's review from page 31

Data has been identified as a key strategic focus and we will continue to invest in building our capability with specific focus on data engineering and data science to provide value to our customers and our businesses.

Enhancing and optimising management and operational systems

Operational excellence is a key competitive choice for the Group. It can enhance internal effectiveness, security and process optimisation – by doing things faster and more cost-effectively, reducing errors and ultimately improving the quality of customer experiences.

We created eight delivery platforms and adopted the Agile and Six Sigma methodologies to assist us on our journey towards operational excellence.

Progress towards operational excellence this year include:

- Bank Windhoek removed variations in processes and loaded electronic signature capabilities for several branches
- Bank Gaborone upgraded various systems, lines, infrastructure and interfaces and launched a state-of-the-art data centre
- Cavmont Bank discontinued non-value-adding requirements in the account opening process, implemented a lean process resulting in less processing employees and usage of stationary, centralisation of branch processes, engagement of a more efficient cash management vendor resulting in the reduction of physical cash , quicker response times and introduced dual processing screens

STAKEHOLDERS THAT HAVE AN INTEREST IN THIS MATTER

Customers

Government and regulators

Shareholders

RELATED STRATEGIC CHOICES

★ Building our foundation
★ Win through operational excellence

RELEVANT PRINCIPAL RISK

Technology
Operations
People

BOARD OVERSIGHT

BARC

Group CEO's report from page 23

Our new AsOne2023 strategy: It's All About You

Capricorn Group's new strategy is anchored in the Group's purpose:

Improving lives through leadership in financial services by being Connectors of Positive Change.

This means that we want to show sustainable growth, that we want to win, gain market share, improve the customer experience and obtain market leadership.

Our strategy aims to build sustainable competitive advantage in the countries we choose to compete in. We evaluate the sustainability of our strategic purpose by our ability to win: measured among others through market leadership, which can be growth in a specific segment, or by growing market share at a faster rate than competitors.

We have identified specific strategic choices to anchor our strategy. Strategic risk is mitigated through our risk management process. Our strategic choices will guide the board and management to develop sustainable competitive advantage and to continue creating value for all stakeholders. To test the robustness of our choices, we mapped these against the material matters – showing no gaps or inconsistencies.

Our strategy development process

We started the new strategy development process with the launch of the Red Vellie movement at the leadership conference in September 2019. Group CEO Thinus Prinsloo and chief strategy officer Louis Carstens were the owners of the nine-month plan towards Group board approval of the strategy in June 2020. The plan involved different sessions involving the Group executive team, the Group leadership team (entity executive management teams and the NeXtGen board) followed by a Group board strategy session in March 2020 – all involving a broad range of employees, specialists, executives and Group board members. Each entity developed its own strategy in support of the Group strategy, with specific and relevant objectives, key performance indicators (metrics) and strategy performance targets.

For the 2021 – 2023 strategy cycle we built on learnings from our previous two cycles:

- From 2014 – 2017 our focus was on building strategic capabilities and emphasising a cohesive approach. ROE was used as our main indicator of success.
- From 2018 – 2020 we focused on operational excellence while positioning the Group as Connectors of Positive Change. We identified four strategic choices as strategic anchors and to guide us in our strategy execution.

The Group CEO reflects on our achievements during the last cycle in his report from page 23. A few further learnings in terms of strategy development informed our thinking for the 2021– 2023 strategy cycle:

- **Strategic choices:** We defined narrower and more specific choices in terms of customer experience and digitisation, but opted for more generic choices with regard to the countries we compete in.
- **Our key competitive choice:** We integrated operational excellence with digital and customer experience and will focus specifically on increased customer experience, revenue growth and cost reduction.
- **Digitisation:** Digitisation will become part of the entities' business strategy and transformational culture.
- **More focused approach to growth:** We moved away from a functional approach to systematic growth capability development.
- **More integrated strategy execution:** Our approach encompasses all execution platforms, including customer experience, growth, digitisation, operational excellence, people, culture and brand.
- **Quarterly strategy alignment and execution sessions with Capricorn Group leadership team:** This will drive deeper buy-in and shared ownership of the strategy.

Measuring and monitoring progress

During previous strategy cycles we focused on data to derive quantitative evidence of impact and progress. For 2021 – 2023 we refined our strategy execution measuring and monitoring approach as follows:

- We will continue to measure progress on strategy execution by focusing on both quantitative and qualitative strategy performance metrics
- Our strategy metrics will encompass lead, current and lag indicators which encourage strategic thinking and position us to deal with uncertainty and complexity
- The entities will identify the strategy metrics and targets relevant to their unique competitive environments
- As per current practice, performance against targets will inform specific strategy execution actions by each entity
- On a quarterly basis a consolidated view about strategy execution performance will be submitted to the Group board to monitor strategy implementation, progress and challenges

Rooted in the pillars of "W" for Windhoek where it all began, the three lines of our logo represent our values of being open, dedicated and inspired.

GOVERNANCE REPORT

We are committed to the principles of sound corporate governance and by subscribing to these principles, we believe that all stakeholder's interests are promoted.

Governance overview and approach

Capricorn Group and its subsidiaries are committed to the principles of sound corporate governance, which are characterised by discipline, transparency, independence, accountability, responsibility, fairness and social responsibility. By subscribing to these principles, the Group believes that all stakeholders' interests are promoted, including the creation of long-term shareholder value.

The board and its committees are responsible for establishing effective leadership and ethical practices, and for ensuring the application of appropriate governance practices to deliver the desired outcomes. Following a decision by the NSX in 2018 to allow listed entities to select compliance either with the NamCode or King IV™, Capricorn Group adopted King IV™.

The board supports the shift to an outcomes-based approach to governance, where the leadership tone is set from the top. The work done in embedding The Capricorn Way signals the emphasis on creating an ethical culture with behaviours based on a common set of values.

Creating an ethical culture is our most pertinent material matter. The board sets the tone for an ethical culture through a Group risk appetite statement, which includes ethics risk-related elements. Operational risk priorities include building an effective Risk Culture to support dynamic risk management.

Board members and employees adhere to an updated Group Code of Ethics and Conduct Policy. The Procurement Policy was augmented with a Suppliers' Code of Conduct. Refer to page 19 for the case study on sharing our journey and principles with suppliers. The BSEC is mandated to recommend policies and guidelines for addressing ethics issues with the board and escalate any ethics risks to the BARC.

Dealing in shares is governed by a policy that sets out practices for approval requirements, disclosure principles and closed-period rules, among other things. Board members are required to observe section 242 of the Companies Act of Namibia, which deals with disclosure of interests. Where appropriate, board members recuse themselves from discussions or decisions on matters of potential conflict of interest unless these matters are resolved otherwise by the Group chairman or by the remaining board members. There were no material potential conflicts to address.

Key board practices and activities focus on:

- Open and rigorous discussion
- Active participation
- Consensus in decision-making
- Independent thinking and alternate views
- Reliable and timely information

The board provides oversight and ensures sustainability by approving a clear strategy linked to performance objectives and targets. To demonstrate this, we describe the AsOne2023 strategy development process on page 53.

The operational risk management infrastructure was enhanced to support the Group's strategy, which directs the evolution of the internal risk and control frameworks based on anticipated future operating dynamics. To achieve good performance as an outcome, the board evaluates its own performance, which includes the board committees' performance, and ensures that remuneration throughout the Group is linked to achieving performance targets.

Effective control is embedded in the Group's governance structures. The board follows a structured approach to meetings, supported by a timely flow of documents to ensure that the oversight responsibilities of the boards of subsidiaries, as well as the board and its committees, are carried out effectively.

The board believes that the Group earns legitimacy through consistent performance over time, a reputation for compliance, customer service, stakeholder-inclusivity and by acting as a Connector of Positive Change.

Governance milestones for 2020

- Ongoing reviews and improvements in line with the King IV™ principles and related recommended practices were actioned. 23 of 27 proposed actions are on track or successfully concluded, and the remaining four are delayed by the pandemic.
- Additional board meetings were held to consider and confirm the Group's response to the pandemic and the consequences of related regulations. The board expressed its satisfaction with management's proactive thinking and the successful implementation of business continuity measures.
- The ethics strategy was implemented, and a board-approved, three-year action plan commenced (refer to page 101 for more insight).
- We appointed an independent non-executive director with strong information technology skills to the board effective November 2019.
- Comprehensive internal evaluations of the boards, committees, directors and company secretaries of Capricorn Group, CAM and the three banks were completed to ensure that we operate efficiently, have robust conversations and to address any gaps (refer to page 62 for more insight).
- There was early involvement of non-executive directors in planning and setting the strategy for the next strategy cycle (refer page 53 for more insight).

Our King IV™ journey

King IV™ focuses on outcomes as opposed to inputs in respect of good governance. It defines corporate governance as the exercise of ethical and effective leadership by the board towards the achievement of four corporate governance outcomes, namely ethical culture, good performance (sustainable value creation), effective controls and trust, a good reputation and the legitimacy of the company (its social licence to operate).

The executive leadership and board, with the assistance of a governance expert, reviewed King IV™ with a view to:

- Ensure alignment in the understanding of the King IV™ philosophy, corporate governance outcomes, the 17 principles and how to apply the principles through supporting practices
- Assess the appropriateness of current practices in support of the outcomes required by each of the 17 principles
- Identify proposed changes and enhancements to current practices to ensure the more effective application of the principles

No major gaps or shortcomings were identified. Areas of improvement were addressed through actions including the following:

- Approval of the ethics strategy and implementation of the first year of the three-year ethics strategy action plan
- The Group Code of Ethics and Conduct Policy was comprehensively reviewed and approved by the board
- The tracking of strategy execution was improved, and closer integration between strategy and risk management and value creation is on track
- The quality of the Group's integrated annual report is benchmarked annually by entering it in the CSSA Integrated Reporting Awards competition
- The integrated annual report disclosure was enhanced in line with a number of King IV™ recommended practices
- Appointment of an independent non-executive director with strong IT skills
- Presentation of a new format for the combined assurance report to the BARC
- Enhancing reporting of stakeholder engagement from subsidiaries to the Group to enhance collaboration on stakeholder issues and opportunities (read more in the stakeholder section on page 19 and the BSEC report from page 96)
- Establishment of the Capricorn Foundation (read more in the BSEC report from page 96)

For a summary of the King IV™ principles and how Capricorn Group has applied them, please refer to the website https://www.capricorn.com.na/Pages/About-Us/Corporate-Governance.aspx

Capricorn Group board

The board plays a pivotal role in the Group's corporate governance system. Intellectual honesty is an overriding commitment with regard to the board's deliberations and approach to corporate governance.

The board is governed by the board charter, which regulates how the board conducts its business. The charter also sets out the specific responsibilities to be discharged by the board members collectively and the Group CEO and Group chairman in their respective capacities. The board is satisfied that it has fulfilled its responsibilities in terms of the board charter.

Role of the board

An important role of the board is to define the vision and purpose of the Group (including its strategic intent and choices) and its values (manifested by The Capricorn Way), which constitute its organisational culture, associated behaviours and norms. These are considered to be clear, concise and achievable. The Group's strategy is considered, evaluated and agreed upon every year before the annual budget is approved. Implementation is monitored quarterly at board and executive meetings. Read more about the Group's purpose, strategy and The Capricorn Way from page 4.

The board also ensures that procedures and practices are in place to protect the Group's assets and reputation, and mitigate risk. A schedule of matters reserved for the board's decisions is in place. It details key aspects of the Group's affairs that the board does not delegate, including the approval of business plans and budgets, material expenditure and alterations to share capital. This framework clarifies roles and ensures the effective exercise of authority and responsibilities.

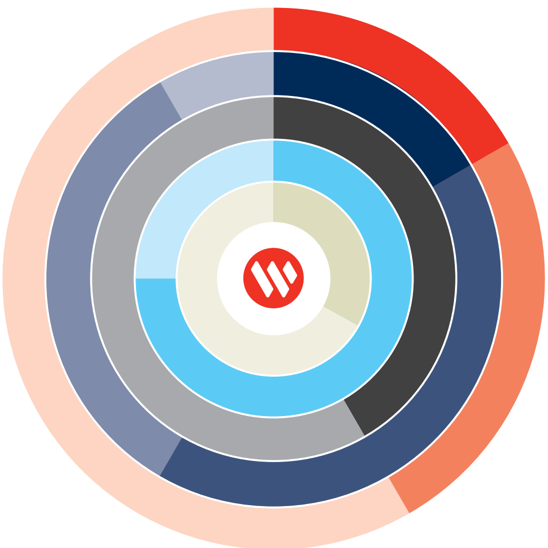
Board leadership and composition

Capricorn Group has a unitary board, consisting of an appropriate mix of executive, non-executive and independent directors. The size of the board is dictated by the company's articles of association, which require a minimum of five directors.

The nominations committee ("Nomco"), which includes the lead independent director ("LID"), assessed the independence of the non-executive directors classified as independent and confirmed their continued classification as independent.

The board is satisfied that its composition reflects the appropriate mix of knowledge, skills, experience, diversity and independence.

Board member diversity



STATUS

17% Executive (2)
25% Non-executive (3)
58% Independent non-executive (7)

AGE

17% Age 40 – 49 (2)
42% Age 50 – 59 (5)
33% Age 60 – 69 (4)
8% Age 70+ (1)

RACE

42% Previously racially disadvantaged individuals ("PDIs") (5)
58% Previously racially advantaged individuals ("PAIs") (7)

GENDER

75% Male (9)
25% Female (3)

TENURE

33% Tenure >9 years (4)
67% Tenure <9 years (8)

Board member profiles

JOHANNES JACOBUS SWANEPOEL (60)

BCom (Hons) (Accounting), CA(SA), CA(Nam)

INDEPENDENT NON-EXECUTIVE CHAIRMAN

- Chairman of the Group board Nomco
- Chairman of the Group board investment committee
- Member of the Group board Remco

Appointed to the board in 1999

After joining Coopers & Lybrand (now PricewaterhouseCoopers ("PwC")) in 1980, Johan Swanepoel qualified as a chartered accountant in 1982. He was elected managing partner of the firm in Namibia in 1989. He was appointed as managing director of Bank Windhoek and a director of Capricorn Group on 1 July 1999. In 2005 he took up the position of Group managing director of Capricorn Investment Holdings. Upon his retirement from this position in 2017, he accepted the role of chairman of the boards of Capricorn Group and Bank Windhoek.

Johan is a director of several companies in the Capricorn Group. He is also a director of Capricorn Investment Holdings Ltd, Namibia Strategic Investments (Pty) Ltd, Kuiseb Investments (Pty) Ltd and Infocare International Ltd.

MARTHINUS JOHANNES PRINSLOO (49)

BCompt (Hons), CA(SA)

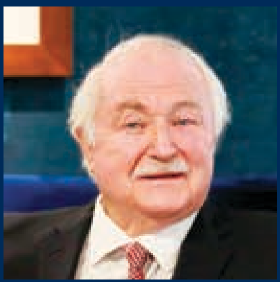
GROUP CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR (GROUP CEO)

- Member of the Group board HR committee
- Member of the Group board investment committee
- Member of the Group BSEC
- Member of the GBITC

Appointed to the board in 2013

Thinus Prinsloo joined Capricorn Investment Holdings in July 2011 and was appointed as managing director of Capricorn Group from 1 January 2016. Before joining the Group, Thinus worked at Absa in South Africa where he held various positions, including the head of integration. Prior to that, he worked as a business strategy consultant at IBM and PwC. Thinus qualified as a chartered accountant while working at PwC in South Africa and the corporate finance division in the UK. He completed a number of executive programmes at GIBS, the University of Cape Town Business School and, most recently, the Oxford Advanced Management and Leadership Programme at Saïd Business School.

He is a director on various boards in the Capricorn Group and the Sanlam Namibia group.



JACOBUS CHRISTIAAN BRANDT (77)

BA LLB

NON-EXECUTIVE DIRECTOR

- Member of the Group board investment committee
- Member of the Group board Nomco

Appointed to the board in 1996

Koos Brandt is a founding member of Bank Windhoek. He was appointed as chairman of the board of Bank Windhoek on 1 April 1982 and was chairman of Capricorn Group from its inception in 1996 until 30 June 2017. He practised as a commercial lawyer for more than 30 years at Dr Weder, Kruger and Hartmann (now Dr Weder, Kauta & Hoveka).

He is a director of several companies in the Capricorn Group and also holds board positions at Capricorn Investment Holdings Ltd, Namibia Strategic Investments (Pty) Ltd and Infocare International Ltd.

Board member profiles

GIDA NAKAZIBWE-SEKANDI (67)

LLB, Accredited Public Relations Practitioner (APR)

INDEPENDENT NON-EXECUTIVE DIRECTOR

- Chairperson of the Group BSEC
- Member of the GBITC

Appointed to the board in 2004

Gida Nakazibwe-Sekandi joined the banking industry in August 2000 when she was appointed as executive officer: marketing and corporate communication at Bank Windhoek. In 2008, she was appointed as executive director of Capricorn Investment Holdings Ltd. Gida is a founding member of the Public Relations Institute of Southern Africa ("PRISA") Namibia. She has served in various executive roles, including as head of industrial relations and communications and head of corporate affairs at Rössing Uranium. She served in the Ministries of Justice in Uganda and Zimbabwe as state attorney and public prosecutor, respectively.

Gida is a director of a number of companies in the Capricorn Group, Capricorn Investment Holdings Ltd and Welwitschia Insurance Brokers. Until recently she served as the lead director of Allegrow Fund, a local unlisted private equity fund. She invests her time pro bono in various social institutions, including MSR and Women@Work.

KEPHAS BRIAN BLACK (65)

Executive and Senior Management diplomas from the University of Stellenbosch

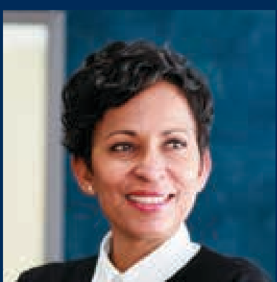
INDEPENDENT NON-EXECUTIVE DIRECTOR

- Chairman of the Group board human resources ("HR") committee
- Member of the Group board Nomco

Appointed to the board in 2007

Brian Black was the national chairman of the Hospitality Association of Namibia, chairman of NCCI Trade and Investment Advisory Committee, and board member of FENATA and PG Bison Namibia. Previous board memberships include the Namibian Employers Federation, the Namibian Tourism Board, Namibia Wildlife Resorts, Swakopmund Hotel & Entertainment Centre and Medicity Private Hospital. Brian was also the general manager of marketing and sales for TransNamib Holdings Ltd, managing director of Cernol Chemicals (Namibia) (Pty) Ltd and executive director of Swachem Namibia (Pty) Ltd and Spice and Scale World (Pty) Ltd. He was a member of the Labour Advisory Council.

Current board memberships include chairman of Ekango Salt Refiners (Pty) Ltd, AFS Group Namibia and the Namibian Manufacturers Association. He is also a board member of the Social Security Commission. Among his personal CSR projects is the Kappsfarm Community Police Station.



ESI MALAIKA SCHIMMING-CHASE (50)

LLB (Hons) SC

INDEPENDENT NON-EXECUTIVE DIRECTOR

- Member of the Group BSEC

Appointed to the board in 2013

Esi Schimming-Chase was admitted as a barrister at law in England and was subsequently appointed legal officer in the office of the Attorney-General of Namibia. She was senior manager: investment promotions at the Offshore Development Company (Pty) Ltd, where she promoted foreign investment in export processing zones in Namibia. She completed her articles at Koep & Partners and was admitted as a legal practitioner of the High Court of Namibia. She is currently a practising advocate of the High Court of Namibia and member of the Society of Advocates of Namibia. She has lectured part-time and acted as a judge of the High Court of Namibia in 2011, 2013 and 2015. In July 2017, Esi was awarded the status of senior counsel. Her other board memberships include the Legal Assistance Centre.

DANIEL GERHARDUS FOURIE (62)

BCom (Hons), CA(SA), CA(Nam)

LEAD INDEPENDENT NON-EXECUTIVE DIRECTOR

- Chairman of the BARC
- Chairman of the Group board Remco
- Member of the Group board HR committee
- Member of the Group board Nomco
- Member of the Group board investment committee

Appointed to the board in 2015

Gerhard Fourie has 35 years' experience as a chartered accountant. He was a partner with EY (formerly Ernst & Young) for 28 years until his retirement as managing partner of EY Namibia in June 2015. Gerhard completed a post-graduate management development programme at the University of Cape Town Business School and an advanced leadership programme at the Gordon Institute of Business Science ("GIBS") and is a member of the ICAN Council. His other board memberships include Bank Windhoek Ltd and he is chairman of Namib Bou.

DIRK JOHANNES REYNEKE (58)

BCom, BCompt (Hons), CA(SA), NDip in Advanced Banking

INDEPENDENT NON-EXECUTIVE DIRECTOR

- Member of the BARC
- Member of the GBITC

Appointed to the board in 2017

Dirk Reyneke was a partner at EY for 14 years, including the Gauteng Financial Services Group and Gauteng head of banking. In 2006 he joined Absa Retail Bank as CFO. Other positions at Absa included head of finance and operations and later chief operating officer for Absa Retail and Business Bank. Since 2012 he has been employed by Telkom Group, where he is now the CFO for Openserve. Previous positions at Telkom included CFO for Gyro Group, Telkom's property division, CFO for Telkom Mobile and head of integration tasked with the integration of Telkom Enterprise and Business Connexion. He is also a member of the boards of SBV Services, SWIFTNet SOC and Gyro group companies.

HEINRICH MIHE GAOMAB II (50)

BCom (Hons), PGDip in Quantitative Development Economics, MSc Quantitative Development Economics

NON-EXECUTIVE DIRECTOR

- Member of the Group board investment committee

Appointed to the board in 2018

Until June 2019, Mihe Gaomab was an executive director at the African Development Bank after serving as the CEO of the Namibian Competition Commission until 2016. He was a deputy director of the Southern African Customs Union until 2009. He was the chairman of the board of trustees of the GIPF from 2011 to 2016 and is the founding president of the Namibia Economic Society.

Board member profiles

GOMS MENETTÉ (53)

MBA, PGDip in Management Studies, NDip in Business Administration

NON-EXECUTIVE DIRECTOR

- Member of the BARC

Appointed to the board in 2018

Goms Menetté is the Deputy Auditor-General of Namibia. He was the deputy director for internal audit of the Ministry of Finance. He is the chairman of the board of trustees of the GIPF and a member of the GIPF's investment and audit and risk committees. He served on the board of Air Namibia for seven years until 2012 and chaired the airline's audit committee. He also served on the Road Fund Administration's audit committee from 2001 to 2004.

JOHANNES JACOBUS ESTERHUYSE (42)

BCompt (Hons), CA(SA)

FINANCIAL DIRECTOR

- Member of the Group board investment committee
- Member of the GBITC

Appointed to the board in 2018

Jaco Esterhuyse joined Capricorn Group in 2012 as Group financial controller after spending seven years in London, as associate director at Barclays, among others. Jaco completed his BCompt (Hons) in 2001 and qualified as a chartered accountant (SA) in 2004. He was promoted to Group chief financial officer in 2013 and is a director of a number of companies in the Capricorn Group and the Paratus Group.

ERNA SOLOMON (58)

BSc (Ed), BSc (Hons), MSc, Global Executive Development Programme

INDEPENDENT NON-EXECUTIVE DIRECTOR

- Member of the GBITC

Appointed to the board in 2019

Erna Solomon is a seasoned financial services technology and information executive with past experience as a chief operating officer, chief information officer and executive director. She was previously a global partner at a big four consulting firm where she advised South African and international banks. Erna has a deep understanding of wholesale and retail banking products and services and has been instrumental in advising on payments transformation as well as digital banking implementation including central bank registration. She has developed and implemented board training on King IV™ as well as technology and information strategy and governance at various large institutions. Erna is the managing director of Cyan EA, a financial services IT consulting company that focuses on strategy, enterprise architecture and digital transformation.

Group chairman, lead independent director and Group CEO

The Group chairman, Johan Swanepoel, is considered to be an independent non-executive director.

The board has appointed Gerhard Fourie as lead independent director. His role and responsibilities are set out in the board charter and include serving as a nexus between executive and non-executive directors, where a more stringent observation of independence is required. This relates to situations where the independence of the Group chairman may be questionable or impaired, including discussions dealing with the succession of the Group chairman and his performance appraisal.

The Group CEO is appointed by the board, and his succession is attended to by the Nomco.

The board is of the opinion that the governance structures and processes in place provide adequate challenge, review and balance, and mitigate undue influence by any particular director. Board decisions are robustly deliberated, and is consensus driven. The board is satisfied that the Delegation of Authority Framework contributes to role clarity and the effective exercise of authority and responsibilities.

Meeting attendance

Each board committee has an executive lead to coordinate meetings and prepare documentation. The board meets a minimum of four times a year, with board committee meetings normally held two weeks prior to board meetings. Feedback reports from the committees to the board include feedback on key matters discussed, key decisions taken, and matters referred to the board.

The BARC, in particular, has an oversight responsibility on behalf of the Group regarding key audit, financial and risk matters dealt with by the board audit and risk committees of Group subsidiaries. To assist the Group BARC in discharging this responsibility, the chairpersons of the BARCs, board audit committees ("BACs") and board risk and compliance committees ("BRCs") of Group subsidiaries submit letters of representation to the Group BARC chairman. The Group CEO also attends all the audit and risk committee meetings of subsidiaries. See the diagram on page 75 for details of this structure.

Attendance at meetings during the financial year was as follows:

Director	Category	Board	BARC	Group board HR committee	Group board Remco	Group board Nomco	Group board investment committee	BSEC	GBITC
	Meetings held:	8	5	4	8	4	4	2	5
JJ Swanepoel	Independent non-executive chairman	8*			8	4*	4*		
KB Black	Independent non-executive	7		3*		4			
JC Brandt	Non-executive	7				4	1		
JJ Esterhuyse	Financial director	8					4		4
DG Fourie	Independent non-executive	8	5*	4	8*	4	4		
HM Gaomab II	Non-executive	8					3	1	
G Menetté	Non-executive	8	4						
G Nakazibwe-Sekandi	Independent non-executive	7						2*	5
MJ Prinsloo	Group CEO	8		4			3	2	5
DJ Reyneke	Independent non-executive	7	5						5
EM Schimming-Chase	Independent non-executive	8						1	
E Solomon**	Independent non-executive	7							3

* *Chairperson*

** *Appointed to the board in 2019*

Board appointments, induction and training

Procedures for appointment to the board are formal and transparent. Nominations for appointment as members of the board are recommended by the Nomco, which is chaired by the Group chairman. The LID is a member of the committee, and all members are non-executive directors.

Background and reference checks are performed before the nomination and appointment of new directors.

New board members hold office until the next annual general meeting, at which time they become available for re-election. Executive directors are engaged on employment contracts, subject to short-term notice periods, unless longer periods are approved by the board.

On appointment, all directors attend an induction programme aimed at deepening their understanding of the Group and the business environment, and markets in which the Group operates. This includes background material, meetings with senior management and visits to the Group's facilities. All board members are expected to keep themselves abreast of changes and trends in the economic, political, social and legal landscape in which the Group operates. Where appropriate, significant developments that impact the Group and of which the board needs to be aware, are highlighted via the governance structures and process.

This year, the board received a presentation on the board's responsibilities regarding AML and the combating of terrorist financing, an overview of the IFRS 9 model and a session on the compliance function. The board also attended a session with Prof Deon Rossouw from the Ethics Institute in South Africa on Ethics Governance and Governance of Ethics.

Board evaluation

With the assistance of the Group company secretary, the Nomco performed an internal evaluation of the boards, committees, directors and company secretaries of Capricorn Group and major subsidiaries, to support continued improvement in their performance and effectiveness. The appraisal included a review of the composition of the boards and committees, roles and responsibilities, relationships with management and other stakeholders, and board meetings, among other things. Following completion of tailored appraisal questionnaires by the directors and company secretaries, the Group chairman interviewed each director individually.

The summary reports were presented to Nomco and indicated a satisfactory outcome of the appraisal. Actions taken as a result of the evaluation include a much earlier involvement of non-executive directors in the strategy planning and setting process. The board is satisfied that the evaluation process is improving the board's performance and effectiveness.

The board believes that its professional corporate governance services are effective.

Access to independent advice

The company secretary is available to provide assistance and information on governance and corporate administration to the directors, as appropriate. The directors may also seek advice on these or other business-related matters directly from independent professional advisers should they so wish. This is in addition to the advice provided by independent advisers to the committees of the board. No requests for external professional advice were received during the year.

The board has unrestricted access to the executive management team of the Group to discuss and ask advice about any matters on which they require additional information or clarification.

The board believes that these arrangements are effective for the optimal functioning of the board.

Board committees

The board as a whole remains responsible for the strategic direction of the Group. To effectively discharge its responsibilities, it delegates certain functions to committees established by the board. All committees are properly constituted, chaired by a non-executive director and act within agreed, written terms of reference that meet best-practice standards authorised by the board. The composition of some board committees includes Group directors only (BARC, Remco, Nomco and the investment committee) while others comprise a combination of directors and executive management (HR, BSEC and GBITC).

Board audit, risk and compliance committee

Committee role, responsibilities and functions

The key responsibilities and duties of the committee are summarised as follows:

- Financial control, accounting systems and reporting including management accounts, external reporting (interim results and integrated report), budgets, dividends and the capital plan
- Ensure a combined assurance model is applied
- Oversee the internal audit function
- Review of the finance function
- Oversee risk management, including risk appetite and IT risk, as referred by the IT committee
- Review compliance
- Engage with the external auditor
- Review non-trading losses
- Oversee the asset and liability committee ("ALCO")

The financial director, Group head of risk, head of internal audit and the external auditor attend all BARC meetings. They have unfettered access to the BARC chairman and the board.

The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year.

KEY FOCUS AREAS FOR THE FINANCIAL YEAR

- Key responsibilities as listed
- Establishing and embedding a Group liquidity plan to manage liquidity risk and optimise liquidity Group-wide
- Cavmont Bank operating losses and continued financial support

MEMBERS OF THE COMMITTEE

Chairman: Gerhard Fourie
Dirk Reyneke
Goms Menetté

BOARD MEMBERS AND MANAGEMENT REPRESENTATIVES INVITEES

Brian Black
Koos Brandt
Jaco Esterhuyse
Mihe Gaomab II
Gida Nakazibwe-Sekandi
Thinus Prinsloo
Esi Schimming-Chase
Erna Solomon
Johan Swanepoel
Nico van der Merwe (executive officer: ERM)
Johan van Rensburg (chief audit executive)

Further compliance disclosures on external and internal audit, and internal controls

External audit

The BARC approved the external auditor's terms of engagement, scope of work and the 2020 annual audit strategy, and agreed on the applicable levels of materiality. Based on written reports submitted, the BARC reviewed the findings of their work with the external auditor and confirmed that all significant matters had been satisfactorily resolved. The BARC's views on the quality of the external audit is that the audit was executed in compliance with generally accepted audit standards.

The IFRS 9 provisioning models were implemented in the prior year and have since reached an acceptable level of maturity. Due to the materiality of the values involved, the impairment provisions will always be a significant matter that the audit committee has to consider in relation to the annual financial statements. This was addressed by the BARC by engaging with external audit and other professional advisers in each of the three countries where the Group's banks operate.

The BARC assessed the external auditor's independence and concluded that the external auditor's independence was not impaired during the reporting period and up to the date of signing the consolidated financial statements.

The BARC has approved a Non-audit Services Policy that is strictly adhered to. On a quarterly basis, management reports all payments made to the external auditor for audit and non-audit fees to the BARC. Prior BARC approval is required for assignments exceeding the policy threshold. Non-audit services received, and fees paid by the Group during the financial year are:

Technical training	N$405,398
Agreed-upon procedures	N$363,423
Other	N$410,159

The external audit firm has audited the company since its incorporation in 1996. Audit firm rotation is envisaged as required by the Banking Institutions Determination on Independent Auditors ("BID-10"). The designated external audit partner was rotated in 2017. During the external audit firm's tenure, the finance team and all BARC members have low tenures, which mitigates the risk of familiarity between the external auditor and management.

It is the external auditor's responsibility to report on whether the financial statements are fairly presented in all material respects in accordance with the applicable frameworks adopted by the Group. Their audit opinion is included in the consolidated annual financial statements on page 109.

Internal audit

The Group internal audit services ("GIAS") is an independent and objective assurance and consulting function created to improve the systems of internal control across the Group. GIAS helps the Group to achieve its objectives by systematically reviewing current processes by using a risk-based approach to establish whether the risk management process, the management control process and the governance process are adequate, effective and appropriate. The internal audit function has sufficient knowledge and experience to execute on the BARC-approved internal audit charter. The charter is consistent with King IV™ and adheres to the requirements of the Institute of Internal Auditors.

GIAS reports to the BARC and has unrestricted access to the BARC chairman. A risk-based internal audit plan is approved annually by the BARC and is reassessed biannually in order for the internal audit function to remain focused on the relevant risks and the material matters for the board. The BARC satisfied itself that the internal audit function was appropriately independent and approved the internal audit plan for the financial year.

EY acts as co-source partner to GIAS, supporting the head of GIAS, providing technical support, resource capability and reporting to the BARC.

Internal controls and combined assurance

The Group maintains systems of internal control over financial reporting and the safeguarding of assets against unauthorised acquisition, use or disposition. These systems are designed to provide reasonable assurance to the Group and each subsidiary's management and board of directors about the reliable preparation of financial statements and safeguarding of the Group's assets.

The systems include a documented organisational structure and division of responsibility and established policies and procedures that are communicated throughout the Group and the proper training and development of its people.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control systems can provide only reasonable, and not absolute, assurance with respect to the preparation of the financial statements and the safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances.

The Group continuously assesses its internal control systems, through reports from management, internal assurance providers and external audit, in relation to effective internal control and risk management as the basis of the preparation of reliable financial reporting.

No material breakdown in controls was identified during the year. Based on its assessment, and the results of the internal and external audit reports, the Group believes that as at 30 June 2020, its systems of internal control over financial reporting and safeguarding of assets against unauthorised acquisitions, use or disposition were adequate. The BARC's views on the effectiveness of the design and the implementation of internal financial controls are reflected in the statement of responsibility by the board on page 63.

Having assessed the effectiveness of the finance functions in the Group as well as the financial director, the BARC considered the overall finance function in the Group to be competent, well capacitated and in compliance with benchmark standards and norms.

A Group Combined Assurance Framework, based on the principles outlined in the King IV™, was drafted. The framework is still in an implementation phase, but the BARC is of the view that the framework is adequate to achieve the objective of an effective, coordinated approach for all assurance providers. The outcome from assurance activities of compliance monitoring, management assurance services and internal audit are reported to the BARC in a combined assurance report. The annual audit activities of the external auditor take into consideration and are coordinated with internal assurance providers. A process is underway to extend the Group Combined Assurance Framework to identify and integrate other assurance role players and their envisaged contribution to combined assurance reporting.

Risk and Compliance

Please refer to the risk report starting on page 69 for information on the BARC's work in the risk and compliance areas.

Group board HR committee

Committee role, responsibilities and functions

The committee is responsible for the following key matters:

- Consider and approve personnel policies
- Consider and challenge the appointment, benefits and remuneration of management below executive level
- Consider and approve remuneration and benefits of non-management
- Consider and act on recommendations by the Capricorn Group Retirement Fund
- Consider and act on recommendations regarding medical aid and Group life benefits
- Determine and approve criteria for performance management and incentives
- Oversee implementation of the Group's Employment Equity Policy
- Approve and monitor the framework policies and guidelines for environmental health and safety management

The HR committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year.

KEY FOCUS AREAS FOR THE FINANCIAL YEAR

- Monitor implementation of the Group's Employment Equity policy in Namibia
- Consider managerial appointments and promotions
- Consider and approve a mandate for negotiations with the trade union in Namibia
- Review of personnel policies

COMMITTEE MEMBERS

Chairman: Brian Black
Gerhard Fourie
Baronice Hans (managing director: Bank Windhoek)
Tertius Liebenberg (managing director: CAM)
Thinus Prinsloo

MANAGEMENT REPRESENTATIVES INVITEES

Chris Matthee (executive officer: retail banking services)
Stephanie Viljoen (executive officer: human capital and citizenship)

Group board remuneration committee

Committee role, responsibilities and functions

The Remco is responsible for the following key matters:

- Review and approve the Group's remuneration philosophy, principles and the broad framework of remuneration
- Oversee the establishment of the Group's Remuneration Policy
- Review and recommend remuneration and fees for services as directors
- Oversee talent management at executive level
- Consider and approve the remuneration of executive positions
- Consider and approve incentive schemes

Read more about the activities of the committee in the remuneration report on page 90.

The Remco is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year.

COMMITTEE MEMBERS

Chairman: Gerhard Fourie
Frans du Toit (director: Bank Windhoek)
Johan Swanepoel

MANAGEMENT REPRESENTATIVE INVITEES

Baronice Hans (managing director: Bank Windhoek)
Thinus Prinsloo

KEY FOCUS AREAS FOR THE FINANCIAL YEAR

- Institute of Directors committee appraisals
- Long- and short-term incentives
- Share purchase scheme
- Leadership assessments
- Remuneration report
- HR organisational changes and implementation
- Executive directors' and executive management benchmarking of total reward
- Non-executive directors' remuneration

Group board nominations committee

Committee role, responsibilities and functions

The Nomco is responsible for the following key matters:

- Consider and recommend director nominations and related matters
- Evaluate director performance
- Consider director succession plans

The Nomco is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year, for all Namibian entities. Botswana and Zambia have their own committees.

COMMITTEE MEMBERS

Chairman: Johan Swanepoel
Brian Black
Koos Brandt
Gerhard Fourie

MANAGEMENT REPRESENTATIVES INVITEE

Thinus Prinsloo

KEY FOCUS AREAS FOR THE FINANCIAL YEAR

- Consider board and board committee appraisals
- Recommend board appointments at subsidiaries
- Determine shareholders' representation on boards
- Discuss directors' succession planning
- Appointment of IT director
- Consider board composition at Group and subsidiaries
- Directors' independence evaluations
- Composition of employer representatives at the retirement fund
- Review of Group Governance Framework

Group board investment committee

Committee role, responsibilities and functions

The committee is responsible for the following key matters:

- Consider and recommend all prospective investments and disinvestments above a certain value
- Evaluate and monitor the performance of investments
- Measurement and oversight of equity investment portfolio
- Review and approve investment strategies

The investment committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year.

KEY FOCUS AREAS FOR THE FINANCIAL YEAR

- Evaluation of potential investments and disinvestments, recommendations to the board for approval
- Monitoring of the acquisition process
- Monitoring of investments

COMMITTEE MEMBERS

Chairman: Johan Swanepoel
Koos Brandt
Jaco Esterhuyse
Gerhard Fourie
Mihe Gaomab II
Thinus Prinsloo

MANAGEMENT REPRESENTATIVES INVITEES

James Chapman (chief financial officer: Bank Windhoek)
Baronice Hans (managing director: Bank Windhoek)
Claire Hobbs (chief treasurer: Bank Windhoek)
Tertius Liebenberg (managing director: CAM)
Nico van der Merwe (executive officer: ERM)

Group board sustainability and ethics committee

Committee role, responsibilities and functions

The committee is responsible for the following key matters:

- Consider and approved the Group sustainability strategy and philosophy, good corporate citizenship and ethics
- Promotion of equality, prevention of unfair discrimination and reduction of corruption
- Monitoring social and economic development activities
- Monitoring environment, health and public safety activities
- Monitoring consumer relationships and public relations
- Monitoring compliance with human rights conventions and ethical breaches internally and externally

The BSEC is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year.

See the separate report from page 96 with disclosures related to ethics, good corporate citizenship and stakeholder engagement.

KEY FOCUS AREAS FOR THE FINANCIAL YEAR

- Establishment of the Capricorn Foundation, following a review of the CSR strategy
- Review of the ethics strategy and implementation of the ethics action plan
- Review of the integrated report
- Monitoring stakeholder relationships and engagement
- Monitoring procurement practices including ethical standards for suppliers and business partners

COMMITTEE MEMBERS

Chairperson: Gida Nakazibwe-Sekandi
Mihe Gaomab II
Ven Pillay (special adviser)
Thinus Prinsloo
Esi Schimming-Chase
Nico van der Merwe (executive officer: ERM)

MANAGEMENT REPRESENTATIVES INVITEES

Louis Carstens (chief strategy officer)
Sybrand Coetzee (managing director: Bank Gaborone)
Mark Durr (managing director: Capricorn Capital)
Ian Erlank (chief operating officer: CAM)
Stephanie Viljoen (executive officer: human capital and citizenship)
Marlize Horn (executive officer: brand and corporate affairs)
Peet van der Walt (managing director: Cavmont Bank)
Azelle Verwey (Group head: compliance and AML)
Baronice Hans (managing director: Bank Windhoek)

Group board information technology committee

Committee role, responsibilities and functions

The GBITC is chaired by Prof. André Watkins, an independent external IT specialist. The committee is responsible for the following key matters:

- Review and recommend the Group IT strategy
- Consider and recommend changes to the Group IT Policy
- Consider and approve the Group IT reference architecture
- Consider and approve the Group application portfolio
- Assess and approve the Group IT organisational and governance structures
- Oversee IT risk management inclusive of information security/cybersecurity
- Consider and approve strategic projects
- Consider and recommend significant outsourcing
- Ensure the adequacy of IT resources
- Oversee IT systems and infrastructure stability

The GBITC is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the year.

KEY FOCUS AREAS FOR THE FINANCIAL YEAR

- Maturing of the Agile methodology
- Execution of our strategy through eight focused platforms – digital, core banking, process automation, information and analytics, finance, human resources and risk, compliance and legal, tracking progress on platforms projects
- IT risk and information security/cybersecurity

COMMITTEE MEMBERS

Chairman: Prof. André Watkins
Sybrand Coetzee (managing director: Bank Gaborone)
Baronice Hans (managing director: Bank Windhoek)
Tertius Liebenberg (managing director: CAM)
Peet van der Walt (managing director: Cavmont Bank)
Jay van Zyl (special adviser)
Jaco Esterhuyse
Gida Nakazibwe-Sekandi
Thinus Prinsloo
Dirk Reyneke
Erna Solomon

MANAGEMENT REPRESENTATIVES INVITEES

Etienne Slabbert (chief information officer)
Nico van der Merwe (executive officer: ERM)
Kobus Hough (head: IT architecture)

Further disclosures on technology and information

Technology and information are governed in a way that supports Capricorn Group in setting and achieving its strategic objectives. The GBITC is well established to fulfil the oversight required and meets quarterly. Oversight of IT is part of every GBITC agenda and IT policies are reviewed and approved by GBITC.

GBITC actively monitored the delivery against the priorities of the eight platforms. Platform progress updates are provided at every GBITC meeting, and specific actions were noted and tracked to completion. All other focus areas were reviewed and actioned.

Capricorn has Group policies in place that guide IT, service delivery, change management, information security, disaster recovery and acceptable use. It also has Technology Risk Framework in place.

Planned areas of future focus are:

- Further enhance Agile and platforms execution
- Investing in the various platforms to support the Group's strategy
- Oversight for expanding platform capacity in line with business demand and to enable delivery of the strategy
- Continue reviews of the platform execution and delivery against strategy
- Continue to focus on enhancing systems and infrastructure stability
- Continual review and improvement of information and cybersecurity

We are proud of our logo that reflects our legacy and how we got to where we are now.

And as before, we will always achieve our successes by holding true to our values.

RISK REPORT

Executive summary of this risk report

- Group risk management continues to support the implementation of the strategic choices of the Group
- The Group principal risk owners (“PROs”) own relevant Capricorn Group material matters, and specific board committees have oversight of these
- Our risk management practices are aligned to King IV™, and we apply our Group Risk Internal Control and Assurance Framework (“GRICAF”) according to the unique features of each operating unit
- We define the principal risks, explain the mitigating actions and present these alongside key risk indicators, trends, oversight accountability and future focus areas
- Nine principal risks show stable trends, credit risk is deteriorating, and technology risk and operations risk are improving

Risk overview

Risk Culture

Capricorn Group continued embedding Risk Culture as the foundation for a sound governance, risk and compliance (“GRC”) environment. “Risk Culture building” means training each employee’s mind, heart and personal character to respond effectively to any risk which presents itself in the daily operating environment. This means taking the right decision to mitigate, control or optimise risk to the advantage of Capricorn Group. Risk Culture remains an important part of The Capricorn Way culture building interventions and the induction programme.

The four pillars of our Risk Culture Building Framework are included in the performance assessment process for all employees. This requires regular performance discussions on how each employee applies the following pillars in the execution of their roles:

1. **Think differently:** Think through immediate events and consider consequences of decisions
2. **Get the whole picture:** Adopt a broader view than historical events and internal perspectives
3. **Build a risk intelligence system:** Collect information from inside and outside Capricorn Group and from multiple sources to allow us to sense and respond to changes in the operating environment
4. **Every Capricorn employee is a risk manager:** Risk management is everyone’s duty and we equip our employees to perform this duty

Our Risk Culture maturity was advanced through an independent Risk Culture Maturity Monitor assessment which involved 300 employees. The results enabled us to build targeted action plans to address the areas that required improvement. These plans were executed under the guidance of the heads of risk in the subsidiary companies.

The focus this year shifted from general awareness to building sustainable capacity for Risk Culture building beyond the central risk function by developing and offering formalised training courses:

- The certified Capricorn Risk Culture Building Programme was developed to train volunteers within the Group. Over time this will embed a Risk Culture without the need for continuous central risk function interventions. The first certification course was piloted with 18 Bank Windhoek volunteers from branches and head-office functions.
- A Risk Training Programme based on the public programme offered by the Namibia Association of Risk Management (“NARM”), was developed. The Risk Management 101 Programme is customised with Capricorn-specific elements for the development of technical risk management skills.

Read more about our engagement with the Namibian government ministries to build risk management capacity in the case study on page 44.

Philosophy and approach

The GRICAF adopts standard risk management practices from Basel II/III and the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Risk management practices are guided by business objectives and formal risk capacity, appetite and tolerance statements.

Accountability for risk management is clear and vests with senior executives at Group and subsidiary levels. However, everyone is responsible for risk management. Central risk management functions are responsible for risk management policies, standards, infrastructure and processes while operating units are responsible for managing risks within their operations. Assurance functions such as internal audit, management assurance and compliance have varying degrees of independence from operating units and perform monitoring activities.

Main risk types applicable to the Group have been identified and are called principal risks. Each principal risk is mitigated through a Risk Management Framework. Risk management frameworks are developed with a systemic approach to risk and control framework design to ensure that our risk management practices support and sustain the system's performance objectives.

GRICAF objectives

At a strategic level, the objectives of the GRICAF are to:

- Optimise efficiency by effectively using risk resources in the Group
- Directly contribute to the creation of end-customer value by eliminating unnecessary tasks in the process
- Build standard risk management accountability, principles and processes into the business management process
- Ensure that risks are understood and managed proactively within acceptable risk capacity, appetite and tolerance

Risk management and strategy

The GRICAF is directed by the Group's strategic choices which frame the long-term direction for risk management infrastructure, key skills and risk management capabilities. The implications of the strategic choices, shown below, inform the strategic focus areas for risk and compliance management in the Group.

Strategic choices AsOne2020	Implications for ERM
Focus on building our foundation in Namibia, Zambia and Botswana to get to a position of market leadership.	ERM supports this choice by using financial analytics, scenario testing, merger and acquisition risk assessment and an intentional drive to mature our modelling and analytics capabilities towards prediction and prescription.
Win in Namibia, Zambia and Botswana through operational excellence (lean, efficient, fast) and effective execution.	ERM supports this choice by fostering efficiencies and lean but safe control frameworks built into the business process, analytics and management information.
Compete in Namibia, Botswana and Zambia through strategic relationships and partnerships in insurtech, fintech, mobile and telco, and education.	ERM supports these choices through risk assessment of new ventures, vigilance of cyber risk and measures to address it, and development of new skill sets while maintaining awareness of fast-changing business operations and the need to achieve scale quickly and easily.
In considering other African countries beyond 2020, target technological/ borderless/cyber opportunities above bricks and mortar entry. Evaluate opportunities, whether cyber or bricks and mortar, on a case-by-case basis.	ERM recognises that to support this choice, it is necessary to be cognisant of cyber risk, new regulations and legal requirements. Quick response to threats and sharp sensing mechanisms are required. The increased use of technology such as the GRC system will allow for better risk outcomes through scalable, enterprise-wide data gathering, analysis and insight.

Risk and governance structures aligned to material matters

Material matters affect or influence the success of the strategy and our ability to create value. Where the Group is able to mitigate or address material matters directly, it does so through the principal risk frameworks as indicated in the table below. Material matters are overseen through the governance structure also reflected below.

Material matter	GPRO oversight	Board committee oversight
Ethical leadership (business and management)	People risk Compliance risk Reputation risk Operations risk	BARC, BSEC, Group HR committee and Group Remco
Credit risk management and mitigating losses due to bad debt	Credit risk Capital risk Liquidity risk Market risk Finance and tax risk	BARC, board credit committee ("BCC")
Financial and cybercrime	Technology risk Reputation risk Operations risk Compliance risk People risk	GBITC
Meeting customer needs and expectations	Reputation risk Strategic risk Operations risk	BSEC
Demand for specialist skills driving focused development, training and diversity	People risk Compliance risk Reputation risk	Group board HR, Remco
Responding to a changing regulatory and operating context	Legal risk Compliance risk Strategic risk Reputation risk Operations risk Finance and tax risk	BARC
Fintech, insurtech and evolving digital assets	Technology risk Operations risk Reputation risk	GBITC
Enhancing and optimising management and operational systems	Operations risk Technology risk People risk	BARC

Read more about the material matters on page 42 and the strategic landscape shaping our current and emerging risks from page 41.

Basel II/III

The Bank of Namibia embarked on the phased implementation of Basel III in 2017. In terms of Basel III Pillar 1, the bank follows the standardised approach for BID 5A (capital requirements for credit, market and operational risks). BID 5A became effective on 1 September 2018 and incorporated a phased-in approach for the Basel III capital ratios. To support banks to supply credit during the COVID-19 pandemic, the Bank of Namibia reduced the capital conservation buffer rate to 0% for a period of at least 24 months.

The second Basel III-related determination, BID-6 (minimum liquid assets), became effective from 1 September 2019. BID-6 does not yet incorporate the two Basel III liquidity ratios, i.e. the net stable funding ratio and the liquidity coverage ratio, but these ratios are expected to follow in time. Bank Windhoek already implemented these ratios due to its relationship with the International Finance Corporation ("IFC").

The Bank of Namibia requested detailed information on liquidity risk, which will inform future updates to BID-6 to accommodate the Basel III liquidity ratios. To alleviate possible liquidity strain brought on by the COVID-19 pandemic, the Bank of Namibia offered a six-month relaxation to the short-term mismatch (zero to seven days' time band) allowing Bank Windhoek's outflows to exceed its inflows in this period by no more than their unencumbered liquidity buffer. In addition, the banks can set their own limit for the time band eight to 30 days over this time.

Banking regulations in Botswana and Zambia are based on Basel II, and the status quo was maintained throughout the financial year. The Bank of Botswana has yet to engage the industry in 2020 on the implementation of Basel III, which, was indicated during the previous financial year. However, Bank of Botswana has performed a survey among banks about the net stable funding ratio and the liquidity coverage ratio.

How we govern risk

The way in which we govern risk has remained unchanged during the financial year. The board assumes responsibility for the governance of risk and sets the direction for how risk should be approached in the Group. The board recognises that risk is about the uncertainty of events, and that these could potentially have a positive or negative impact on our ability to create value.

The board allocates the responsibility for oversight and governance of risk management to the BARC. The Group CEO is the senior executive responsible for the implementation of a sound Risk Management Framework.

The executive officer for ERM has delegated authority to (a) facilitate the appointment of Group and entity PROs and (b) the development of appropriate risk and control frameworks for each of the principal risks. Each principal risk is assigned to an executive officer with relevant expertise as the PRO. Entity PROs are responsible for the risk management frameworks within the respective entities. Group PROs are responsible for the appropriateness, effectiveness and consistency of principal risk frameworks across the Group.

Central risk functions within the banks and at the Group head office are responsible for providing the risk management infrastructure (guidance, policy, standards, processes and tools) to support the GRICAF, and they provide oversight and assurance.

Alignment with King IV™

The Group Governance Framework and the GRICAF support the principles of King IV™. Ethics had previously been identified as a key focus area, and the ethics strategy and plan implementation continued. Each subsidiary adapted the plan for its own operating environment and reported on progress monthly. Status reports were monitored centrally by the ethics officer.

Further enhancement opportunities were identified:

- Strategy development should include risk management, specifically in relation to upside risk, as well as risks emanating from the triple context and from dependence on resources and relationships represented by any of the capitals. This enhancement is work in progress.
- Disclosure on risk framework self-assessments conducted within the Group could be improved, specifically in terms of how they are done and how gaps are remediated. This enhancement was implemented.

Creating value through Enterprise Risk Management

The way in which ERM creates value remained the same during the financial year. The GRICAF processes and enabling infrastructure allow us to proactively identify and act on risks and opportunities that may impact the Group's strategic actions. In this way, ERM supports the Group's purpose.

The target maturity level of the GRICAF remains one of dynamic risk management which adapts to changes in the operating environment. A dynamic maturity level is characterised by continuous improvement of methods and procedures, proactive risk identification and reward, assured regulatory delivery, and evidence of industry risk behaviours. This leap from an established, process-orientated framework to a responsive and dynamic risk management framework is supported by investments in technology and by building an effective Risk Culture.

The investment in GRC technology concluded during the previous financial year. This year we focused on embedding the automated workflows to capitalise on the benefits of the technology. This remains a work in progress and will continue into the next financial year.

Enablers of a dynamic risk management system

Governance, risk and compliance ("GRC") system: The GRC system contributes to proactive risk management. The system allows all role players in the Risk Management Framework to provide input and share risk information in real-time and to present up-to-date risk profiles based on integrated data across risk and assurance functions. The benefits of the system further include standardisation of risk management across the Group ("speaking one language") and enabling the audit and compliance functions to plan their workstreams in a more integrated and efficient manner.

Group risk committee and the Group principal risk owners ("GPRO") role: The GPRO role was created to allocate accountability and coordinate the execution of the Capricorn Group risk committee mandate. The committee was established by the Capricorn Group executive management team to assist with overseeing risk management, compliance and risk governance across the Group. The committee differs from entity risk committees in its oversight role, which emphasises the aggregated risk profile and adequacy of the GRICAF infrastructure and systems of control (the control frameworks).

Centres of expertise: Value is created for Group subsidiaries through centres of expertise located in Namibia. These provide thought leadership and direction, and perform non-routine activities such as advisory engagements and special assignments. Examples include AML expertise, financial risk modelling, compliance monitoring, corporate governance and Risk Culture building.

While strategic direction is set centrally, it is interpreted and adapted locally in line with the Group's strategic guidance approach. Decentralised local execution meets market expectations. The sharing of services such as AML expertise and analytics provides for economies of scale and greater integration and engagement on risk management across jurisdictions.

Risk Culture: Our Risk Culture supports all elements of the GRICAF by cultivating and embedding the correct understanding of and attitude towards risk and risk management.

Group Risk, Internal Control and Assurance Framework ("GRICAF")

The GRICAF encompasses the risk management value chain, highlighting the primary activities and role-players involved in risk management.

The main risk categories, being the principal risks, are contextualised for each operating unit to ensure that the Principal Risk Framework is relevant. Not all risk categories apply equally to every operating unit. The standard practices of the GRICAF provide a common language and understanding of risk. This allows the Group to standardise and aggregate risk reporting to enable effective oversight by governance structures at all levels.

The following table provides an overview of the risk management value chain and the related activities and role players. The GRICAF design remained unchanged during the financial year.

Risk management value chain	Strategic direction	Risk assessment	Risk controls	Reporting
	Our strategic choices define our risk appetite, and our material matters determine our priorities.	Principal risks have been identified and defined, and they are analysed and measured. Risks to the strategy and instances of suboptimal risk-taking are dynamically identified and responded to. Emerging risks are identified and monitored.	Control objectives are determined, designed and documented. Controls are implemented, evaluated and monitored.	Risks profiles are assessed against risk appetite and tolerance, and they are reported quarterly. Risk indicators have clear alert thresholds (triggers) with defined escalation paths to responsible managers, PROs and risk committees.
Main role players	Board, committees and executive leadership team	Group and entity PROs	Group and entity PROs, management and Group risk functions	Group and entity PROs, risk functions, internal and external assurance providers
Risk management tools/ structures/policies	Group management model, material matters, documented strategy, policy framework and risk capacity, appetite and tolerance ("RCAT")	Principal risk frameworks, risk type methodologies, models, advanced analytics	Control assessment methods, GRC system, controls built into IT systems, advanced analytics	Reporting frameworks
	Group requirements for the identification/measurement, control and reporting of principal risks are documented according to the GRICAF and implemented by business units			

Oversight of risk management and Group management model

There were no changes to the way in which risk management is overseen, nor to the Group management model. The Capricorn Group board is ultimately accountable for the adequacy of the GRICAF. The board discharges its responsibilities for risk management to the BARC through the Group governance structure (refer to the governance report on page 55). The board receives assurance on the adequacy of the GRICAF through the second and third lines of defence, being the risk, management assurance, compliance and internal audit functions.

Together, these internal functions provide the board with a view of how various role players execute the GRICAF practices. The board also draws on the perspectives of external auditors and regulators who conduct regular reviews of the operating entities in the Group. The combined internal and external inputs provide the board with an overall evaluation of the implementation and effectiveness of the risk policies and frameworks.

The Basel risk type frameworks are assessed through self-assessments by each of the banks in the Group. The self-assessments are based on a combination of regulatory requirements and sound practices. The risk committee of each bank approves the self-assessment and oversees the implementation of any remedial actions. Detailed action plans with owners and due dates ensure that remedial actions are rigorous. The self-assessment results are reported to the Group risk committee, and progress with implementation of remediation actions is monitored centrally.

The Group maintains a formal process to remediate any gaps identified by assurance providers. Risk systems include audit trails and fully transparent reports on remediation progress. The combined assurance provided by the internal and external assurance providers did not highlight any material gaps in the GRICAF. Therefore, the board is satisfied that the GRICAF was adequately executed during the 2020 financial year.

The Group management model encompasses corporate responsibilities (for example the governance model design), core capabilities (typically central risk functions, for example the operational risk department), shared services (such as compliance monitoring, internal audit and AML) and operating unit activities (most of the risk processes). The management model presents an optimal management structure to ensure:

- Effective execution of business processes to consistently achieve process objectives
- Optimal cost efficiency and use of risk resources in the Group
- The ability to scale with the growth of the Group
- Alignment to the local requirements of the various operating environments

Risk services are provided through an optimal mix of centralised services, such as corporate functions and core capabilities (for example operations risk, governance, audit, compliance and Risk Culture building) as well as decentralised local services such as central risk teams in banks.

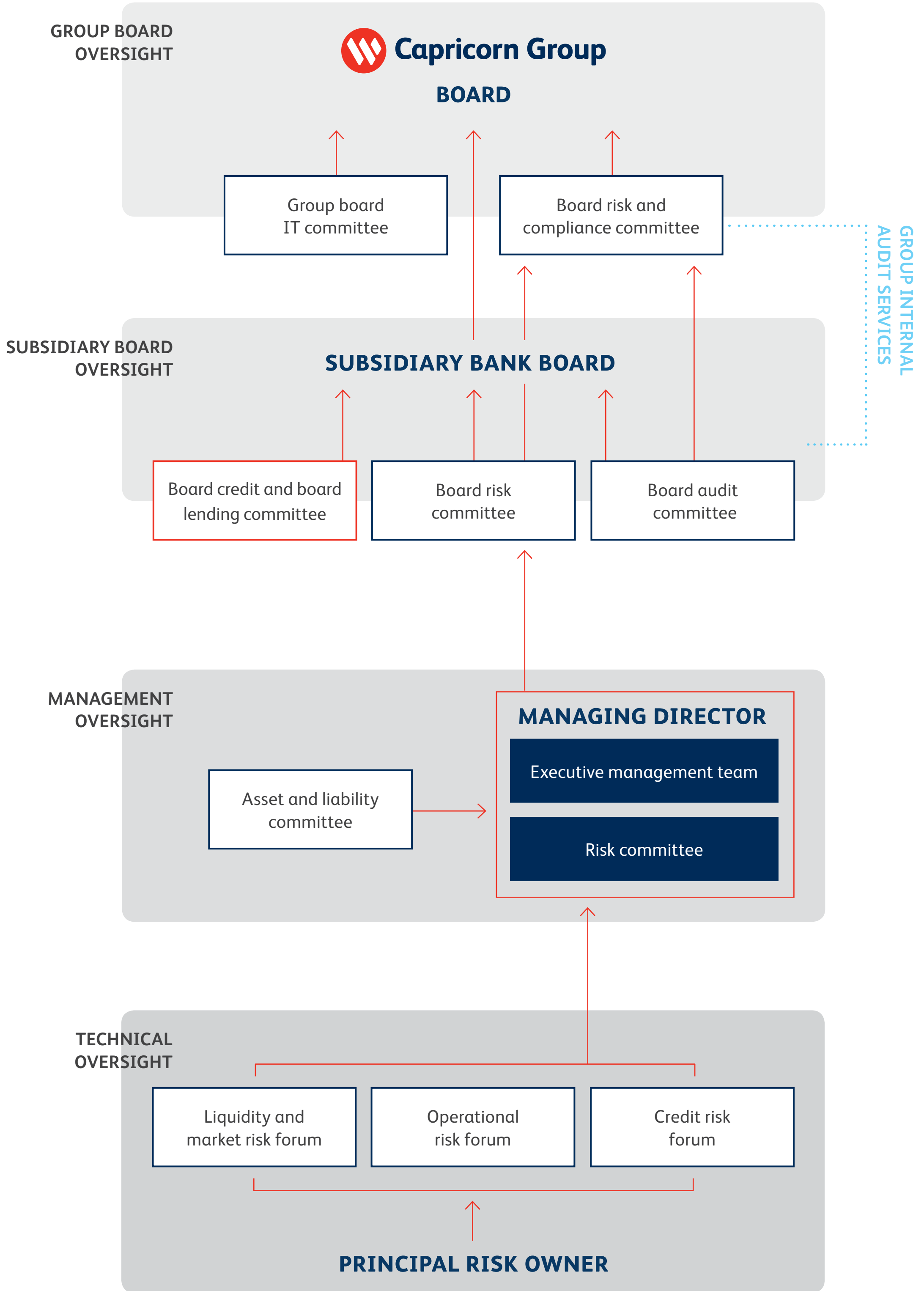
Risk capacity, appetite and tolerance (“RCAT”)

The board has a duty to set risk appetite for the Group. Risk appetite statements direct and guide management in policy development and decision-making, and they are key components in the delegation of duties to management. The capacity and appetite statements are reviewed at least annually, and measurements are reported to the risk committee, executive management team and the BARCs. The quantitative and qualitative appetite statement is developed and approved in conjunction with the budget.

Banking subsidiaries’ risk oversight structure

Each subsidiary’s risk management oversight and governance are structured in line with its size and complexity and considering its legal and regulatory environment. The following diagram shows a typical structure for a bank. The structure varies depending on the nature of the subsidiary.

We passionately believe that by connecting the people of this region to opportunity and prosperity, we can help taking the region closer to realising its greatest self.


GROUP BOARD OVERSIGHT
Capricorn Group
BOARD
Group board IT committee
Board risk and compliance committee
GROUP INTERNAL AUDIT SERVICES
SUBSIDIARY BOARD OVERSIGHT
SUBSIDIARY BANK BOARD
Board credit and board lending committee
Board risk committee
Board audit committee
MANAGEMENT OVERSIGHT
MANAGING DIRECTOR
Executive management team
Risk committee
Asset and liability committee
TECHNICAL OVERSIGHT
Liquidity and market risk forum
Operational risk forum
Credit risk forum
PRINCIPAL RISK OWNER

Risks to the strategy

The aggregated quarterly risk report to the Group BARC covers all subsidiaries. Apart from the detailed reporting on the various principal risks, the report highlights the following for board attention:

1. What are the risks to the strategy of the Group?
2. Where are we potentially taking too much or too little risk (in relation to RCAT)?
3. What are our emerging risks?

2020 Group risk profile

The Group's main risks are represented by the 14 principal risk categories that apply across the various operating units in all three jurisdictions (Namibia, Botswana and Zambia). The overall aggregated principal risk profile for 2020 is shown in the following table:

The GROs have updated and confirmed the table below for the risk profiles as at 30 June 2020.

Principal risk	Risk trend	Residual risk	Previous
Capital	Stable	Green	Green
Compliance	Stable	Amber	Amber
Credit	Deteriorating	Red	Amber
Finance and tax	Stable	Green	Green
Financial crime	Stable	Green	Green
Investment management	Stable	Green	Green
Legal	Stable	Green	Green
Liquidity	Stable	Amber	Amber
Market	Stable	Amber	Amber
Operations	Improving	Amber	Amber
People	Stable	Amber	Amber
Reputation	Stable	Amber	Amber
Strategic	Stable	Amber	Amber
Technology	Improving	Amber	Amber

The trend reflects the direction of the risk profile during the financial year, considering the effect of management actions and/or external factors on the residual risk profile.

Improving =	The risk profile improved during the period
Stable =	The risk profile remained largely unchanged over the period
Deteriorating =	The risk increased during the period
Red =	The risk has exceeded the board risk capacity and appetite thresholds
Amber =	The risk is within appetite and closely monitored due to its proximity to the board risk capacity and appetite thresholds. For some risks, this could indicate an optimised risk/reward relationship
Green =	The risk is comfortably within appetite and, for certain principal risks, this could indicate capacity for more risk taking

Capital risk

Capital risk is the risk that the Group will be unable to (a) meet its capital requirements and (b) fund business expansion when needed. It includes the risk that regulatory requirements are not adhered to and the resultant costs of non-compliance, as well as the fact that insufficient capital will adversely affect the ability to raise funds.

How we mitigate this risk

The objectives of the Group when managing capital includes:

- Complying with minimum regulatory capital requirements in all operating jurisdictions
- Safeguarding the ability of the Group to continue as a going concern
- Maintaining a sufficient capital base to support business development

To mitigate capital risk, the board approved thresholds for capital adequacy, and capital was managed monthly within these parameters on a Group and entity level.

The parameters are set using a red, amber and green ("RAG") status indicator. A threshold above the minimum regulatory requirements is applied as can be seen from the Bank Windhoek example below.

Bank Windhoek	**RAG status**		
Descriptor	Red	Amber	Green
Regulatory capital adequacy compared to minimum regulatory capital adequacy ratio of 10 %	<12.5%	12.5 – 14.5%	>14.5%
Leverage ratio (regulatory minimum 6%)	<7%	7% – 8%	>8%
Tier 1 capital (regulatory minimum 7%)	<8%	8% – 9%	>9%

Capital adequacy is reviewed at ALCO level monthly. Any emerging risks are managed proactively.

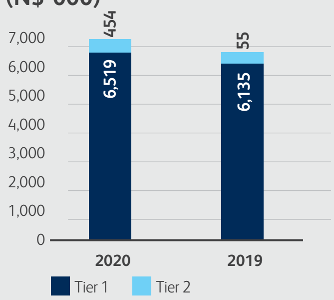
The regulators announced a relaxation of capital adequacy requirements as part of a stimulus package to counter the economic effects of the COVID-19 pandemic.

The Bank of Namibia reduced the capital conservation buffer rate to 0% for at least a 24-month period to support banking institutions to supply credit to the economy. The Bank of Botswana reduced the minimum capital adequacy ratio from 15% to 12.5% for the same reason. No relief in terms of capital requirements was available to Cavmont Bank.

Key risk indicators

Key regulatory capital figures for Capricorn Group	2020	2019	Variation
Tier 1 ratio	**13.8%**	12.3 %	1.5 %
Total capital ratio	**14.7%**	14.9 %	(0.2 %)
Leverage ratio	**12.1%**	10.9 %	1.2 %
Tier 1 (N$'000)	**6,519**	6,135	384
Tier 2 capital (N$'000)	**454**	55	399
Total capital (N$'000)	**6,973**	6,190	783
Risk-weighted assets (N$)	**47,121**	42,568	4,553

Total capital – Capricorn Group (N$'000)



GOVERNANCE OVERSIGHT

Capital is tracked at Group and entity ALCOs and executive management teams and reported to the board on a quarterly basis.

MORE INFORMATION

Read more about the composition of regulatory capital and the ratios of the Group in note 3.7 of the consolidated annual financial statements from pages 207 to 208.

PRIORITIES FOR 2020 AND PROGRESS MADE

During these uncertain economic times, it is important to ensure our business is well capitalised. By maintaining healthy capital buffers, we ensure our businesses are resilient to economic shocks.

FUTURE FOCUS AREAS

Remain well-capitalised with sufficient capital buffers to sustain economic shocks and support future business expansion.

Compliance risk

Compliance risk is the risk of failing to comply with applicable legislation, and consequently the risk of cancelled trade licences, penalties and reputational damage.

How we mitigate this risk

As a leading financial services Group, we face complex challenges in ensuring that our activities comply with local legislation, regulations and supervisory requirements as well as the relevant international standards.

The compliance function manages an extensive compliance management programme. This programme entail identifying, assessing, advising on, monitoring and reporting on the compliance risk of the Group and its subsidiaries with core legislation. The programme includes a legislative review of the impact of pending legislation, and assessments to judge readiness for implementation.

Key risk indicators

No penalties have been issued to any Group entity in the period under review.

FUTURE FOCUS AREAS

We want to enhance the AML and Combating the Financing of Terrorism (“CFT”) Compliance Programme to incorporate and automate AML and CFT requirements. This will result in a seamless automation of AML requirements as part of our business processes.

It includes the following projects that will be, or are being, delivered on the legal, risk and compliance platform:

- The mandatory Client Due Diligence (“CDD”) indicator project, whereby all the CDD documents that are required per entity type will be listed on the system to avoid uncertainty that leads to non-compliance
- Automation of Enhanced Due Diligence (“EDD”) on the banking system, prompting bank officials to conduct EDD and capture the required information on the system for analysis
- The Ultimate Beneficial Ownership (“UBO”) project to capture UBO information per client on the system for analysis
- An AML system health check to provide assurance that the system is correctly configured and integrated into the banking system
- Scenario reviews and updates as well as implementation of weighted averages into high-risk client identification
- Automation of the Foreign Account Tax Compliance Act (“FATCA”) onboarding process

GOVERNANCE OVERSIGHT

Monthly reporting to risk committees and a quarterly compliance report to the entity and Group board risk and compliance committees.

PRIORITIES FOR 2020 AND PROGRESS MADE

A three-year compliance monitoring plan was approved to enable the compliance monitoring department to forewarn Bank Windhoek of non-compliance with core legislation, to remediate pro-actively. Sanction screening systems and processes were enhanced.

Credit risk

Credit risk is the risk that a borrower or counterparty will fail to meet an obligation when it falls due and is inherent in the Group's business activities. The realisation of credit risk can cause a considerable loss in revenue, and a decline in the total asset value when assets are liquidated, and the exposure is paid off or written off.

How we mitigate this risk

The COVID-19 pandemic has put the global economy under extreme pressure and is further hampering already strained southern African economies.

Namibia had an above-average rainy season which brought some relief to the struggling agricultural sector. However, the COVID-19 pandemic is expected to have a long-lasting detrimental impact on the economy. Despite numerous efforts to provide relief to businesses and individuals, such as reduced interest rates and payment holidays, the pandemic is taking its toll. Namibia has been in a recession for three years with no positive GDP growth expected soon. Increasing levels of unemployment, debt and further economic slowdown are imminent.

In Botswana, the NPL ratio deteriorated in line with market movements, mainly due to overindebtedness of individuals and pressure on small-business owners and government contracts. In Zambia, the NPL ratio has seen an uptick with further increases expected due to COVID-19 and the deteriorating local currency. Clients' arrears statuses are being managed proactively, and efforts are made to restructure client loans.

The credit department, with the assistance of business units, is taking the necessary additional measures to ensure that credit risks are proactively managed and mitigated and selectively onboard new borrowers.

Credit risk management process

Credit risk is managed by monitoring the quality and concentration risk of the overall portfolio on an ongoing basis. Analyses, predictive models and stress testing are used to enhance the understanding and management of credit risk. Continued focus will be placed on managing the Environmental and Social Management System ("ESMS") and using it in the loan application process to ensure responsible, sustainable lending.

We mitigate increased credit risk through credit management and collections processes and the following measures:

- Improving efficiency of the collateral and collections processes
- Use of the call centre and outsourcing for collections
- Additional capacity in key areas
- Incentivising performance with regard to NPL ratios and IFRS 9 provisions
- Developing monitoring and predictive tools to help prevent the deterioration of irregular accounts
- Automating the credit application and arrears management processes
- Client-focused rehabilitation, client visits, recovery strategy and applicable employee training
- Selling off NPL assets to investors
- Developing portfolio-level indicators to assist with credit portfolio management (group linking, family trees and sector classification codes)
- Researching the impact of severe risk scenarios such as the COVID-19 pandemic, and managing the impact as required

The following actions have been put in place as a result of the pandemic:

- We engaged the top 100 borrowing clients proactively in the most affected industries (tourism, transport, retail) to determine how Bank Windhoek can assist them
- Extended reviews for two months where information was still outstanding
- Determined the potential consequences of "force majeure/Acts of God" on our loan agreements and facility letters
- Determined the possibility of deferments, refinancing and extensions of credit agreements

Key risk indicators

Key regulatory capital figures	2020	2019	2018
NPL as a percentage of gross loans and advances (%)	**4.68%**	4.14 %	3.33 %
IFRS 9 stage 3 provision/ specific impairment provision (N$'000)*	**640,268**	508,727	258,411
Impairment charges in income statement (N$'000)	**304,371**	114,547	80,840

* *2020 saw a substantial increase in the impairment provision due to the impact of COVID-19 on the IFRS 9 forward-looking model.*

FUTURE FOCUS AREAS

Future focus areas remain unchanged as follows:

- Optimise credit processes further and investigate the possibility of introducing an automated credit application process
- Increase focus on developing portfolio-level tools to improve credit risk monitoring, profit optimisation and concentration risk management
- Further enhance the Group Credit Risk Framework and portfolio analyses

GOVERNANCE OVERSIGHT

Credit risk is monitored at and managed by the entity credit risk forums, executive management team and risk committees, board audit and board risk and compliance committees.

MORE INFORMATION

Read more about credit risk in the section on material matters from page 41.

PRIORITIES FOR 2020 AND PROGRESS MADE

- Focus was maintained on NPLs and early warning mechanisms
- Automated dashboards were developed to assist the legal collection branch and credit managers in managing arrears and collections daily
- Portfolio-level analysis and credit risk management were further enhanced in the areas of risk-adjusted profitability measures and optimised IFRS 9 provisions
- Oversight of the Group Credit Risk Framework was improved
- Bank Windhoek remains ready for Basel III although the Bank of Namibia has not implemented Basel III

Finance and tax risk

This risk relates to an operational function and is addressed routinely as part of our business activities. It is therefore not tracked as a separate risk item and as approved by the BARC, not reported in the same way as other principal risks.

Financial crime risk

Financial crime risk entails fraud, dishonesty, misconduct, misuse of information relating to a financial market, handling the proceeds of crime or financing terrorism. Financial crimes may involve fraud (cheque fraud or credit card fraud), theft, scams or confidence tricks, tax evasion, bribery, embezzlement, identity theft, forgery and counterfeiting, computer crime, phishing, burglary and armed robbery.

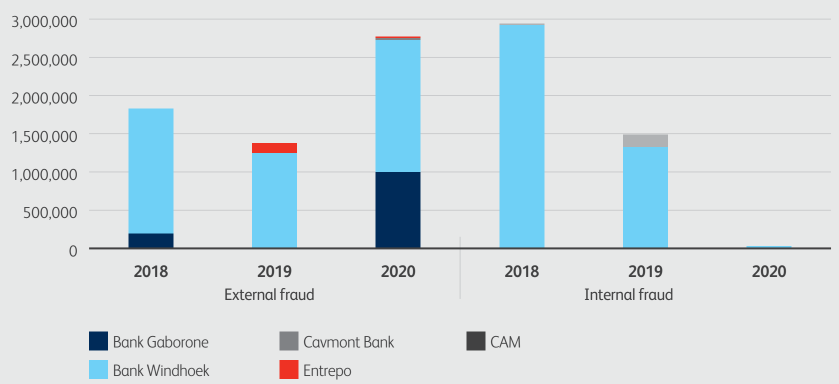
How we mitigate this risk

Financial crime losses have remained low throughout the Group as deliberate efforts continue to reduce losses and create awareness. These efforts have embedded the desired risk and ethics culture; they include Risk Culture building interventions and training, the ethics strategy implementation, fraud awareness created on social media platforms, enhancements to digital channels and card products, and enhancement of preventative and detective systems.

Fraud risk assessments are conducted to inform our Risk and Control Framework. The framework adheres to standard practices for operational risk in respect of risk and control assessment, key risk indicator monitoring, risk incident reporting and issue remediation.

Financial crime risk is managed through proactive and reactive methods. Proactive methods use technology to identify patterns of behaviour, whereas reactive methods involve forensic investigations. The Group employs specialists to combat financial crime. Risks associated with money laundering, tax evasion and financing of terrorist activities are regulated, and Group processes are compliant. Enhancements to these processes are made continuously as gaps are identified through our monitoring and assurance processes.

Key risk indicators (N$)



GOVERNANCE OVERSIGHT

Monthly risk reports are submitted to risk committees. A quarterly risk report is compiled from the subsidiary information and reported to the Group risk committee and BARC.

PRIORITIES FOR 2020 AND PROGRESS MADE

- We continue embedding the GRC system
- The Risk Culture building capability now extends to internal certification
- A new risk training module was introduced for general employees
- The ethics strategy is being implemented Group-wide
- The whistleblower hotline has been repositioned as an ethics hotline which broadens the scope of the service as a reporting channel

FUTURE FOCUS AREAS

- An Information Security Risk and Control Framework
- Advanced analytics to combat financial crime

Investment management risk

Investment management risk is posed by applying a specific investment view given a certain macroeconomic and/or entity-specific view in portfolios and mandates which we manage on behalf of clients.

How we mitigate this risk

We establish clear guidelines per portfolio based on a strategic allocation and performance risk budget.

Key risk indicators

- Interest rate duration
- Spread risk allowance
- Single-party exposure limits
- Credit and liquidity ratings per instrument aggregated within each mandate
- Maximum term limits if applicable
- Performance measurement against peers and benchmarks/target returns

GOVERNANCE OVERSIGHT

Oversight is provided by monthly performance and attribution meetings, monthly credit meetings, monthly economic meetings and monthly asset allocation meetings. We have continuous portfolio-specific engagements and submit monthly risk reports at these meetings. A quarterly risk report is compiled from the subsidiary information and reported to the Group risk committee and BARC.

FUTURE FOCUS AREAS

Expanding the scope of credit analysis.

PROGRESS IN 2020

The review of relevant matrices and oversight continued.

Legal risk

Legal risk is the risk of loss that is primarily caused by (a) defective transactions; (b) a claim being made or some other event that results in a liability for the Group, or other loss; (c) failure to take appropriate measures to protect assets (for example intellectual property) owned by the Group; (d) changes in law; and (e) exposure to fines and penalties resulting from supervisory actions.

How we mitigate this risk

The legal risk profile has remained stable and within appetite.

The Group has developed a Risk Management Framework to manage legal risk. The framework adheres to standard practices for operational risk in respect of risk and control assessment, key risk indicator monitoring, risk incident reporting and issue remediation.

Key risk indicators

Losses

FUTURE FOCUS AREAS

Implementation of reviewed legal documentation in Botswana and Zambia.

GOVERNANCE OVERSIGHT

We submit monthly risk reports to risk committees. A quarterly risk report is compiled from the subsidiary information and reported to the Group risk committee and BARC.

PRIORITIES FOR 2020 AND PROGRESS MADE

The GaLexy legal suite has been embedded in our operations in Namibia and implemented in Botswana and Zambia. The system will be embedded in Botswana and Zambia in 2020.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial obligations as they fall due. It is also the risk that the Group may not be able to liquidate assets fast enough or without incurring excessive cost. Liquidity risk is inherent in the Group's business endeavours and represents its ability to fund increases in assets and meet its financial obligations while complying with all statutory and regulatory requirements.

How we mitigate this risk

Liquidity risk is monitored and managed by means of a set of liquidity indicators and triggers that serve as early warning signs and action triggers. The Group's overall liquidity position is monitored and managed in conjunction with the funding action plan to ensure sound liquidity of all operating units. The liquidity risk is managed by monitoring various identified variables, which include:

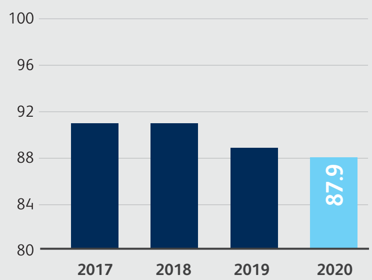
- The level of understanding of demand and supply for liquid assets
- The level of adequacy and ability to access funding (established lines of funding) in a short period of time
- Relationships with depositors

Additional contingency funding facilities from Capricorn Group were implemented for all three countries and included in the contingency funding plan. The contingency funding lines were successfully tested.

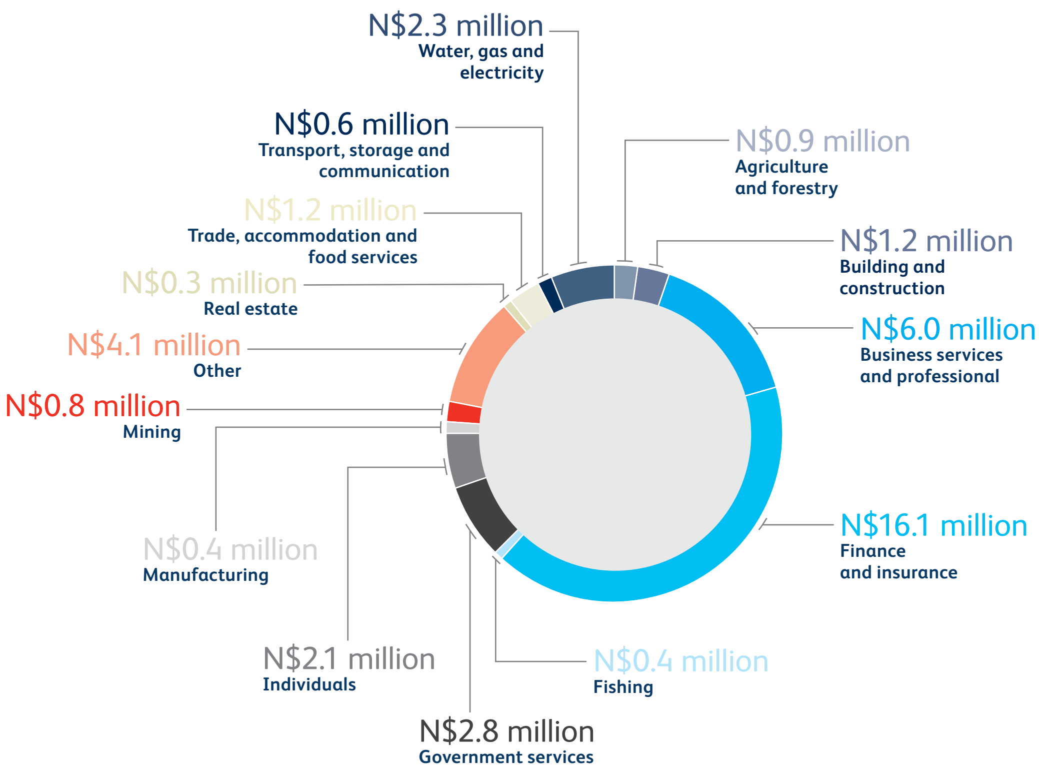
COVID-19 impacted liquidity levels in all regions where we operate, mainly fuelled by reduced interest rates and reduced economic activity. However, with adequate liquidity buffer portfolios and the contingency funding facility, all subsidiaries remained resilient during times of low liquidity, and there was no need to access the Group contingency funding facility.

Key risk indicators

Historical loan-to-funding ratio's (%)



Funding concentration risk



GOVERNANCE OVERSIGHT

Liquidity risk is monitored and managed daily by each entity, and it is overseen at Group level through daily reports. Furthermore, liquidity risk is monitored and managed (a) daily and proactively by the treasury department (b) monthly, at the liquidity and market risks forum, bank ALCO and Group ALCO meetings and (c) quarterly, through reports to the entities and Group boards.

MORE INFORMATION

Read more about liquidity risk in note 3.4 in the annual financial statements from page 191.

PRIORITIES FOR 2020 AND PROGRESS MADE

- Reducing the loan-to-funding ratio to mitigate liquidity risk – as a result of the economic impact of the COVID-19 pandemic, no progress was made
- Diversifying the funding base
- Maintaining healthy liquidity levels during the economic fallout of the COVID-19 pandemic

FUTURE FOCUS AREAS

Reducing cost of funding to maintain current interest margins in the current interest rate cutting cycle, while maintaining adequate liquidity levels.

Market risk

Market risk is the risk of potential losses in on- and off-balance sheet exposures from movements in market rates and prices. The following risks usually arise:

- **Interest rate risk:** The risk of loss resulting from changes in interest rates, including changes in the shape of yield curves
- **Currency risk:** Also known as foreign exchange risk, which arises from fluctuations within the currency market
- **Equity risk:** The risk of potential losses due to adverse change in stock prices

How we mitigate this risk

Market risks are actively monitored at Bank Windhoek, Bank Gaborone and Cavmont Bank. The emphasis is on foreign currency fluctuations and on managing the interest rate of the book in an uncertain interest rate environment. Market risk will remain a key focus area, given the probability of further changes to interest rates, increased volatility in foreign currency markets and the deteriorating macroeconomic environment, amplified by COVID-19.

The sensitivity of the book-to-interest-rate moves can be seen in note 3.3.3 of the consolidated annual financial statements. Each entity manages its funding book according to the following:

- Actual market information
- Market expectations on the state of the local economy
- Expected future monetary policy changes

Foreign exchange risk is managed by closely monitoring the limits set out in the Market Risk Framework. Models and stress tests are used to gain a better understanding of the market risk environment. Foreign exchange positions are managed via stop-loss orders and by using derivatives in the spot market to close or hedge out unwanted exposure.

Due to the volatility and depreciation of the Zambian currency, Zambia's exchange rate is monitored with an increased focus on foreign currency deposits.

The interest rate risk is proactively managed at entity level to ensure that risks are mitigated as far as possible should interest rates move.

Key risk indicators

Refer to note 3 of the annual financial statements for risk indicators and the related sensitivity analysis.

FUTURE FOCUS AREAS

- Continue FTP research and improvements in all three banks
- Proactively manage market risk, considering the higher volatility over the past year and further anticipated changes to interest rates and currency values
- Select and implement a system to enhance market risk management in banks
- Continue focusing on interest rate margin management during a period of low interest rates

GOVERNANCE OVERSIGHT

Market risk is monitored and managed at each banking subsidiary and Group ALCOs.

MORE INFORMATION

Read more about market risk in the financial director's review from page 83 and the section on material matters from page 41.

PRIORITIES FOR 2020 AND PROGRESS MADE

- The funds transfer pricing ("FTP") process was enhanced at Bank Windhoek
- Analysis on FTP was initiated at Cavmont Bank
- Cavmont Bank made improvement in broadening the US$ deposit base

Operations risk

This is the risk of failure to deliver the intended outcome regarding facilities, data, processes, business continuity, physical cash management and payment management. Losses due to payment errors or theft as a result of poor physical security are examples of this risk.

How we mitigate this risk

The low levels of operational risk losses in the banking subsidiaries continue due to deliberate efforts to reduce losses from errors and the Group-wide implementation of Risk Culture building and risk training.

Operations risk is managed according to the standardised approach to operational risk management under Basel II. Qualitative and quantitative tools are applied to identify and assess operations risks.

Key risk indicators

- Loss and error events
- Losses
- Successful completion of integrated recovery tests

PRIORITIES FOR 2020 AND PROGRESS MADE

- Business continuity plans were reviewed, and business impact analysis improved
- By 30 June 2020, all but one entity fully implemented the Business Continuity Framework
- The control environments for payments, cash management and physical security were improved
- The turnaround time on the vehicle and asset finance process for branches was improved
- The process of opening a savings and current account was significantly improved, including by beginning to issue instant cards

GOVERNANCE OVERSIGHT

We submit monthly risk reports to risk committees. A quarterly risk report is compiled from the subsidiary information and reported to the Group risk committee and BARC.

FUTURE FOCUS AREAS

- Data quality and process optimisation
- Implementing the branch of the future
- Improve processes using Six Sigma to remove variation and ensure clients experience consistent high-quality services
- Implement measures to improve our capacity to minimise and absorb losses related to COVID-19

People risk

This is the risk of failure to achieve the Group's business objectives due to difficulties arising from people-related matters. The People Risk Framework is linked to the Group strategy and is measured and reported as such. The framework was refined and is consistently applied. Measurements include the identification and recruitment of key positions, the consistent application of policies and people practices and the adequate application of the Performance Development Framework.

How we mitigate this risk

The people risk profile improved in terms of responses to mitigate potential risk exposures. These include the identification and filling of key vacancies, the standardisation of key policies and the implementation of a robust performance development process. The number of audit findings/observations were reduced, bringing risks within tolerance. We completed control assessments, key risk indicators and engagement indicators from the mirror survey. These are indicators of the appropriate level of risk is reported on a monthly and quarterly basis to various levels.

The People Risk Framework describes best governance practices and provides clarity on roles and responsibilities while addressing risks associated with employee behaviour, capability and attitude towards risk management.

Key risk indicators

- Vacancies in key positions
- Leave and overtime
- Employee turnover
- Male to female remuneration receives equal pay
- Industrial actions (employee grievance, disciplinary hearings)
- Affirmative action measures (Namibia only)
- Standardisation of policies
- Standardisation of people practices

PRIORITIES FOR 2020 AND PROGRESS MADE

Regularly reviewing and updating the risk framework is critical to ensure that it aligns to micro- and macro-changes, for example to include the impact of COVID-19 and align it to risk tolerance levels.

Some of the recent adjustments include:

- Transitioning employees in the new ways of working (social distancing, teams and cultural diversity)
- Implementing and embedding the new working model (including remote working)
- Training initiatives for managers focusing on workforce of the future and employee engagement
- Strengthening positive relationships with unions including ongoing engagement with union leaders and resolving issues through formal engagement structures
- Improving the performance management process supported by technology
- Development and approval of a Talent and Leadership Framework

GOVERNANCE OVERSIGHT

Detailed risk reports are submitted post engagement with the respective people risk owners in the respective entities. This is reported to risk committees. A quarterly risk report is compiled from the subsidiary information and reported to the Group risk committee, Group BARC and the Group board HR committee.

FUTURE FOCUS AREAS

- Linking the framework to AsOne2023 strategic choices
- Linking internal controls and key risk indicators to management's performance contracts
- Prioritise training and behaviour-based programmes
- Focus on sustainable e-learning programmes within the people development capability
- Focus on diversity in terms of skills, gender and age group

Reputation risk

Reputation risk is mainly a consequence of other risks materialising. It is the risk of failing to understand, identify or manage events that harm the Group's reputation. The Group has no appetite for conduct that places its reputation at risk.

How we mitigate this risk

A Group Reputation Risk Framework and strategic stakeholder engagement plan are in place.

Each entity's PRO for reputation risk continuously receives reputation risk management best practices, case studies as well as tips on dealing with a crisis from a communication and media perspective are continuously shared with the principal risk owners for reputation risk in all entities.

External consultants have been contracted to monitor the Group and its subsidiaries' online presence, including traditional and social media channels. Monthly reports are generated and assist in adjusting strategies and responses to mitigate any potential reputation risks.

Key risk indicators

- Percentage of negative, neutral or positive reporting on social media
- Number of incidences not reported which had or could have had a reputational impact
- Customer service survey results
- Number of customer complaints
- Percentage of negative media reports on the subsidiary per month

GOVERNANCE OVERSIGHT

The Group and subsidiary boards receive reports on material reputation risk issues via the BARC or a board risk committee (as the case may be). Quarterly reputation risk profiles are compiled for all entities and reported to the BARC.

PRIORITIES FOR 2020 AND PROGRESS MADE

- Crisis communication plans were developed and implemented to respond to the COVID-19 pandemic
- The Group's Reputation Risk Framework was reviewed and enhanced
- GPRO oversight of reputation risk management improved, and subsidiaries' reporting was enhanced
- We planned a brand audit to test stakeholders' perceptions of Capricorn Group for May 2020, but it was postponed to August 2020 due to the COVID-19 pandemic
- A compliance audit was conducted on the application of the Group's brand manual, and corporate identity guidelines on the banking brands and gaps were remedied

A quick step-by-step reference guide for stakeholder relationship management and engagement was developed and shared with all the subsidiaries. The Group's strategic stakeholder engagement plan was reviewed and enhanced, after which several stakeholder engagements supported our brand position of being Connectors of Positive Change. We standardised the reporting process for all stakeholder relationship management and engagement initiatives to BSEC.

- Internal awareness was created on reputation risks, and GPRO oversight in managing and reporting reputation risk issues was increased
- An internal campaign was launched to raise awareness of the Tip Off anonymous line in line with the ethics strategy
- A communication plan was also developed to build a strong ethical culture with the theme "Do the right thing"

MORE INFORMATION

Read more in the Group chairman's message from page 10 and the BSEC report from page 96.

FUTURE FOCUS AREAS

- Monitor compliance with the new brand manual (visual identity guidelines) and endorsement strategy among all entities
- Implement the brand and communication strategy to address the risks and opportunities associated with the Capricorn brand
- Build a strong ethical culture through employee communication and engagement initiatives
- Continue implementing the Group's strategic stakeholder engagement plan
- Use the Capricorn Foundation's launch to build a positive reputation for the Group as Connectors of Positive Change

Strategic risk

Strategic risk is the uncertainty and untapped opportunities created and affected by internal and external events and/or scenarios that could inhibit the achievement of the Group's strategic intent and strategic objectives.

How we mitigate this risk

During the year, we mitigated strategic risk in three ways:

- Applying governance as per the Capricorn Group Strategic Risk Management Framework
- Adopting best-practice strategy development methodology consistently across the Group, entities and centres of expertise, thus ensuring strategic alignment
- Implementing strategy, with clear and appropriate metrics and performance targets, to ensure that, where performance fell short of targets, actions were triggered to close strategic performance gaps

Key risk indicators

- Market share in loans and advances (Bank Windhoek)
- Market share in total deposits (Bank Windhoek)
- Customers per full time employee (all banks)
- Customer contribution (all banks)

PRIORITIES FOR 2020 AND PROGRESS MADE

- The key priorities identified in the previous period remained valid, namely improving customer experience and optimising business processes. We made significant progress in our understanding of our customer through advanced analytics.
- We continued our investment in Six Sigma capabilities by training employees in the discipline, and a number of projects were successfully completed.
- The AsOne2023 strategic choices were developed through a robust and participative Group process. Progress will be monitored from 1 July 2020.

GOVERNANCE OVERSIGHT

The Group and subsidiary boards conduct annual strategy sessions to approve strategies for the Group and subsidiaries, respectively. The managing directors report progress with the implementation of the strategy at quarterly board meetings.

MORE INFORMATION

Read more in the section on our strategic landscape and material matters from page 41.

FUTURE FOCUS AREAS

Our focus will remain on the above-mentioned priorities.

Technology risk

Technology risk is the risk that the strategic technology investment is not aligned to the Group's purpose or business strategy, or catastrophic failure of technology to deliver secure IT services that provide critical business services. System breakdowns or systems being offline are examples of this risk materialising.

How we mitigate this risk

The information security and IT risk and compliance teams collaborate with the technology GPRO and subsidiary PROs to identify risks. These are communicated to managers who are responsible for executing remediation plans.

An effective control environment has been created to identify critical issues as they arise and to deal effectively with severity incidents as they occur. Risks are tracked and reported within the risk governance structures.

The Group employs a standardised architecture to combat threats and reduce the effort required to support and maintain all systems. International frameworks and standards from ISO, NIST and ISACA are used to augment and support internal processes, standards and policies.

Key risk indicators

- High-severity incidents
- System uptime
- Cyber attacks
- Disaster-recovery failures
- Support call metrics
- IT change metrics

PRIORITIES FOR 2020 AND PROGRESS MADE

- An enterprise-wide information asset register was compiled, and an Information Classification Framework was approved.
- Group IT continued reducing the complexity and single-point of failure for the banks' internal and external network equipment and connectivity. Progress is evident from the improvement in system stability in Zambia and Botswana.
- A full data centre recovery capability was built and successfully tested in Botswana. In Namibia, disaster recovery was performed successfully over a two-week period in October 2019.
- The Agile approach was embedded. It continues improving the rate of project delivery and promoting the relevance of the projects delivered regarding the strategy.
- Service level processes were embedded.

GOVERNANCE OVERSIGHT

Technology risks are reported to subsidiary management risk committees. Quarterly risk reports are submitted to the subsidiary board risk and compliance committees, as well as the Group risk committee and BARC. Material technology risks are reported to GBITC.

MORE INFORMATION

Read more about IT governance in the governance report on page 55.

FUTURE FOCUS AREAS

- Standardise technologies used across the Group
- Continue enhancing information security controls
- Embed the enhanced vendor management process and controls
- Continue focusing on strengthening cybersecurity
- Configure and align the delivery platforms for development and operations

Along with this, we will continue to reach for the stars,

Only now we seek them in the eyes of the ones whose lives we've made better.

REMUNERATION REPORT

This report reflects our continuing journey towards the full application of remuneration disclosures as required by King IV™.

Part one: Background statement

Introduction

This report reflects our continuing journey towards the full application of remuneration disclosures as required by King IV™. We are committed to remuneration that contributes to the four outcomes, which are ethical culture, good performance, effective control and legitimacy, and will continue to align our practices and enhance our disclosure accordingly. In particular, we have implemented the following enhancements this year:

- The performance development process was automated and we moved from a numeric rating scale to descriptors. Consistency checks were embedded and individual ratings are now used in the calculation of remuneration elements. Performance development indicators align to the strategic choices and were translated into individual performance objectives.
- A detailed market comparison was done using Remchannel, managed by PricewaterhouseCoopers ("PwC") in Namibia, South Africa and Botswana, and by Mercer in Zambia. This ensured a solid understanding of our market position based on detailed roles.
- The principles around short-term incentive ("STI") participation ratios were revised to ensure that the differentiation between job levels are market related. A further enhancement was made to ensure that STI quantum takes Group and business unit performance into consideration.
- A review was done on the long-term incentive ("LTI") instruments to ensure that it aligns to the Group strategy, performance objectives and retention of key talent.

Our approach

This report sets out the Capricorn Group Remuneration Philosophy and Policy ("the policy") and its implementation during the 2020 financial year. The policy has been consistently applied in all entities and markets except Zambia, due to the significantly different market remuneration structure.

We continue to ensure that our remuneration practices and policy adhere to global best practice and align executive interest strongly to those of our shareholders. PwC and Bowmans, whom the Group board remuneration committee ("Remco") considers to be independent and objective, annually reviews and advises Capricorn Group on remuneration. Remuneration principles are applied across the Group and for country specific elements we do benchmarking within each of the countries.

We focused on setting performance conditions for the LTIs and, consistent with the previous year, we disclose the performance conditions in this report. We are confident that the targets we have set for our performance conditions will stretch management, requiring strong company performance to unlock rewards for participants. The Remco also considers the qualitative measures associated with the strategies of the various entities as part of the overall performance conditions.

We continue to strive for appropriate transparency and again present a three-part report. The three-part report contains the background and context to our remuneration approach and governance in part one, our forward-looking Remuneration Policy in part two and the implementation of our policy for the year under review in part three. This allows shareholders to observe the way our stated policy translates into actual outcomes for senior management and executives.

The impact of COVID-19 is covered in detail in the Group CEO's report from page 23 and the financial director's review from page 31. The impact of the pandemic resulted in a rethink at several levels with regard to remuneration and underlying principles. We are reviewing a number of remuneration matters – benchmarking is an example – and this will require a reframing of our position on total reward. Key to delivering on the strategic choices of the Group will be to ensure the health and safety of all our employees, retaining key talent, protecting jobs and reviewing the business model to ensure that its sustainable. Our performance development practices and in turn our Remuneration Philosophy will incorporate these elements in future.

The Remco is comfortable that the policy achieved its objectives.

Governance of remuneration

Remuneration is governed by the Remco. Details about the committee's roles and responsibilities are available in the governance report from page 55. Executive directors attend committee meetings by invitation but are requested to recuse themselves when matters concerning them are discussed.

The Remco confirms that it has discharged the functions and complied with its terms of reference for the year ended 30 June 2020.

The key activities and recommendations of the Remco regarding remuneration during 2020 included the following:

- Benchmarking of executive directors' and executive management's total reward using the annual PwC survey that primarily covers JSE-listed entities with the regional view as a subset
- Benchmarking of non-executive directors' ("NED") fees and the approval of fees for recommendation to the board and shareholders
- Consideration of the outcome of the annual performance assessment of the committee
- Consideration of annual total guaranteed pay increases
- Consideration of the impact of COVID-19 on STI allocations
- Approval of STI and LTI allocations to management

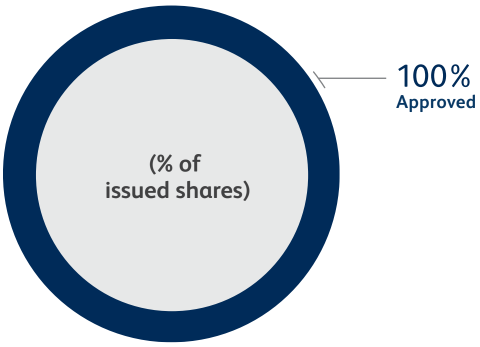
Future focus areas for the committee include a review of the Remuneration Policy in August 2020 as well as:

- Ensuring the alignment of performance and remuneration given the impact of COVID-19. This includes reviewing the measures and weighting of financial vs other performance development objectives.
- Consider bringing in COVID-19 agility as this will be with us for the foreseeable future.
- Emphasising total reward vs focusing on increases, bonus and LTIs as separate elements.
- Emphasising the link between company performance, business unit performance and individual performance.
- Consider structuring the STIs to pay out in tranches based on mid-year and year-end financial results. This will drive motivation and retention. It will further ensure that we take the external impact of an event such as COVID-19 into consideration.

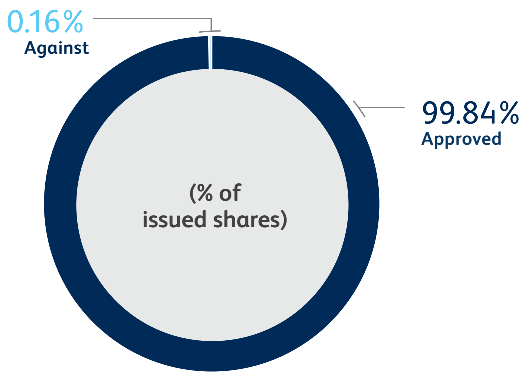
Non-binding advisory vote

At the annual general meeting ("AGM") on 29 October 2019, shareholders had the opportunity to cast a non-binding advisory vote on the Remuneration Policy and the remuneration of the NEDs for the financial year ending 30 June 2020.

Non-executive remuneration for the next financial year



Remuneration Policy voting results



The voting results clearly show support for the Remuneration Policy. Accordingly, no changes were made to the policy. The implementation of the policy for the financial year is reflected in part three, allowing shareholders to observe the way the Group's stated policies translate into actual outcomes for senior management and executives. As in previous years, shareholders will be requested to cast a non-binding advisory vote at the forthcoming AGM on the Remuneration Policy contained in part two and the report on the implementation of the policy contained in part three of this report.

Part two: Overview of the Group Remuneration Policy

The Group's Remuneration Philosophy aims to ensure that all employees are rewarded fairly and appropriately for their contribution. In setting remuneration levels, the Group board human resources committee and the Remco take appropriate market benchmarks into account, while ensuring that sufficient emphasis is placed on pay for performance. The Group board human resources committee is responsible for the remuneration of general employees while the focus of the Remco is on executive management, managing directors and NEDs. This approach helps to attract, engage, retain and motivate key employees while ensuring that their behaviour remains consistent with Capricorn Group's values as articulated in The Capricorn Way. The Group's guiding principles for managing remuneration are as follows:

- Total rewards mindset – Reward is viewed in a holistic manner and comprises a range of monetary (fixed and variable) and non-monetary components.
- Performance differentiation – There is strong differentiation based on performance, particularly for senior, specialist and leadership roles where line of sight to strategic choices is evident.
- Manager discretion – Management discretion is central to the Capricorn Group's Remuneration Philosophy and is based on the requirement that the reward must always be based on merit.
- Variable pay component – The variable pay component of the total reward increases with seniority (organisational level) as the ability to impact business results increases. This is reflected in the quantum of the opportunities offered by the short- and long-term incentives for more senior levels compared to junior employees.
- Performance aligned with strategy – Performance is the cornerstone of reward practices, and there is a clear differentiation between performers and non-performers. Performance measures are an inclusive collective process that focuses on both the "what" and the "how". The "what" is measured using an approach that focuses on the 5Cs: Company, Colleague, Citizenship, Conduct and Customer. The "how" is measured in terms of The Capricorn Way and how the employee lives the behaviours. The reward consequences for individual employees are, as far as possible, linked to and influenced by the interests of the shareholders, the performance of the company as a whole and the individual employee contribution.
- Risk containment – Reward plans are structured to mitigate excessive risk-taking.
- Consistency – The reward philosophy strives to be both consistent and transparent. Benchmarking is performed annually using consistent and recognised methodologies. The differential market value of various skill groups and roles is reflected in pay practices.
- Attraction and retention – The focus is on competitive remuneration practices that attract, engage and retain talent to deliver on the business strategy. Capricorn Group did an extensive review during the September 2018 increase cycle to address any potential gaps between gender and race, as well as the complexity of work. This now forms part of our annual review discipline. We are comfortable that we are applying leading practices across the region.

Elements of pay

The table below sets out an overview of the elements of pay applicable to Capricorn Group employees:

	Element	Detail
Fixed remuneration and benefits	Basic salary	The fixed element of remuneration is referred to as basic salary or Total Guaranteed Pay (“TGP”).
	Benefits	Benefits include membership of a pension fund and medical aid, to which contributions are made by both the employee and the company. Benefits may also include mortgage bond interest subsidies and housing, car, entertainment or other allowances, depending on the job level of the employee. Company contributions are calculated as part of the employee’s cost to company.
Variable remuneration	STI plan	The Group operates a bonus pool STI plan, in which all employees are eligible to participate. The bonus pool is funded from the consolidated Group operating profit and is varied according to the Group’s performance during the year, as is expanded upon in the STI section below. A further enhancement to the policy included the allocation model to ensure that both Group as well as business unit performance is taken into consideration in the determination of the payout. A further alignment was done to ensure that the quantum of payouts per job level is benchmarked.
	LTIs	LTI awards take the form of share appreciation rights, conditional shares, or a combination of both. Most awards are subject to vesting conditions relating to Group performance, measured over a three-year performance period. In instances where retention is required, conditional shares are awarded, which are subject to a vesting condition of continued tenure within the Group. In addition, employees from a specified grade level may participate in the Group’s share purchase scheme to purchase Capricorn Group shares at the volume-weighted average price over the previous 12 months with the option of an interest-free loan repayable over nine years. Full ownership of these shares vests after three to five years.

Annual remuneration adjustments are effective on 1 September every year and increases are not guaranteed. During this process, remuneration structures and pay ranges are evaluated and adjusted where necessary, based on each individual’s salary compared to the salary scales. The following aspects are considered:

- Employee’s performance review
- Formal salary survey conducted to determine local and regional pay practices
- Adjustment of salary scales to reflect any market movement

Short-term incentives (“STIs”)

The Group has an STI plan which aligns with market best practice and operates in the same manner for all employees in the Group. A bonus pool from which all STIs are paid is calculated based on consolidated Group profit.

The percentage of profit which forms the pool is modified according to Group performance during the year, relative to profit before tax and return on equity targets, which are set yearly in advance. Where company performance is below the threshold level, no bonus pool will accrue for senior management and executives.

Each individual’s STI is calculated based on individual performance and job grade, informed by the total pool. Where an employee’s performance is assessed to be below expectation, that employee will not qualify for any STI payment during the year.

The Remco approves the individual performance scores for the executive management teams of the different entities.

The maximum performance incentive remuneration of an employee is limited to twice the on-target incentive.

Entities acquired during a financial year are gradually phased in to ensure alignment, but no disruption, to their operational success.

Long-term incentives ("LTIs")

Share appreciation rights ("SAR") plan

Terms	Detail
Purpose	To attract, retain and reward selected employees who can contribute to the trade of the Group and to stimulate the personal involvement of these employees, encouraging their continued service. The SAR plan serves as a leveraged incentive to employees to promote and align their interests with the shareholders of the company.
Operation	Participants receive conditional SARs which vest after three years, subject to the satisfaction of the performance condition and continued employment of the participant. After vesting, the SARs may be exercised up to five years after the award date.
Participants	Executive directors, executive managers and selected members of senior and middle management
Performance period	Three years
Plan limits	An aggregate limit applies between the SAR plan, the conditional share plan ("CSP") and the share purchase scheme, being 7.5% of the issued shares of the company. An individual participant may not receive awards in excess of 10% of the overall company limit at any one time.
Performance conditions	The performance condition applicable to all awards is achievement of budgeted cumulative profit after tax ("PAT") and return on equity ("ROE") over the performance period. The budget, in turn, reflects the expected outcome of the strategic plans and actions. The vesting period is three years.

Conditional share plan ("CSP")

Terms	Detail
Purpose	To attract, retain and reward selected employees who can contribute to the trade of the Group and to stimulate the personal involvement of these employees, encouraging their continued service. Under the CSP, participants receive conditional shares that vest after three years, subject to the satisfaction of the performance conditions over the performance period.
Operation	In certain cases, where a retention risk exists, conditional shares that vest after three years and are subject to the continued employment of the participant by the Group but are not subject to performance conditions, may be awarded.
Participants	Executive directors, executive managers and selected members of senior and middle management
Performance period	Three years
Plan limits	An aggregate limit applies between the SAR plan, the CSP and the share purchase scheme, being 7.5% of the issued shares of the company. An individual participant may not receive awards in excess of 10% of the overall company limit at any one time.
Performance conditions	The performance condition applicable to all awards is achievement of budgeted cumulative PAT and ROE over the performance period. The budget, in turn, reflects the expected outcome of the strategic plans and actions.

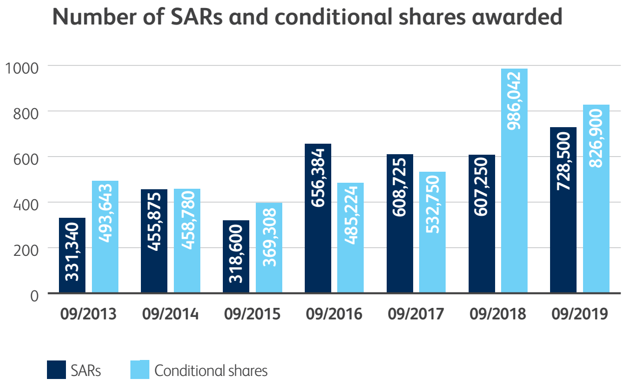
Non-executive directors' fees

The NEDs do not participate in any short- or long-term incentives and do not have contracts of employment with the company. Their fees are reviewed by the company and submitted to shareholders for approval on an annual basis.

NED fees reflect the directors' roles and membership of the board and its committees. The NED fees have been benchmarked against the average of the median and upper quartile of medium-cap financial services companies listed on the JSE.

The resolution relating to NED fees for the 2020 financial year can be found in the notice of the AGM, available online.

Part three: Implementation report



Number of shares acquired under the share purchase scheme

The number of shares acquired by employees in the Group's share purchase scheme in September 2019 was 692,947 (September 2018: 1,512,750).

Dividends paid under the share benefit scheme

Staff members employed at non-managerial job levels below supervisory level are beneficiaries of the Capricorn Group Employee Share Benefit Trust. Dividends earned on the shares held by the trust have been distributed every year since the establishment of the trust in 2005.

Dividends to the value of N$2,205,600 were paid to 438 employees in September 2019 (September 2018: N$2,175,300 was paid to 430 employees).

Executive director's emoluments amounted to N$12,846 million (2019: N$11,232 million) and non-executive directors fees paid amounted to N$9,459 million (2019: N$8,567 million).

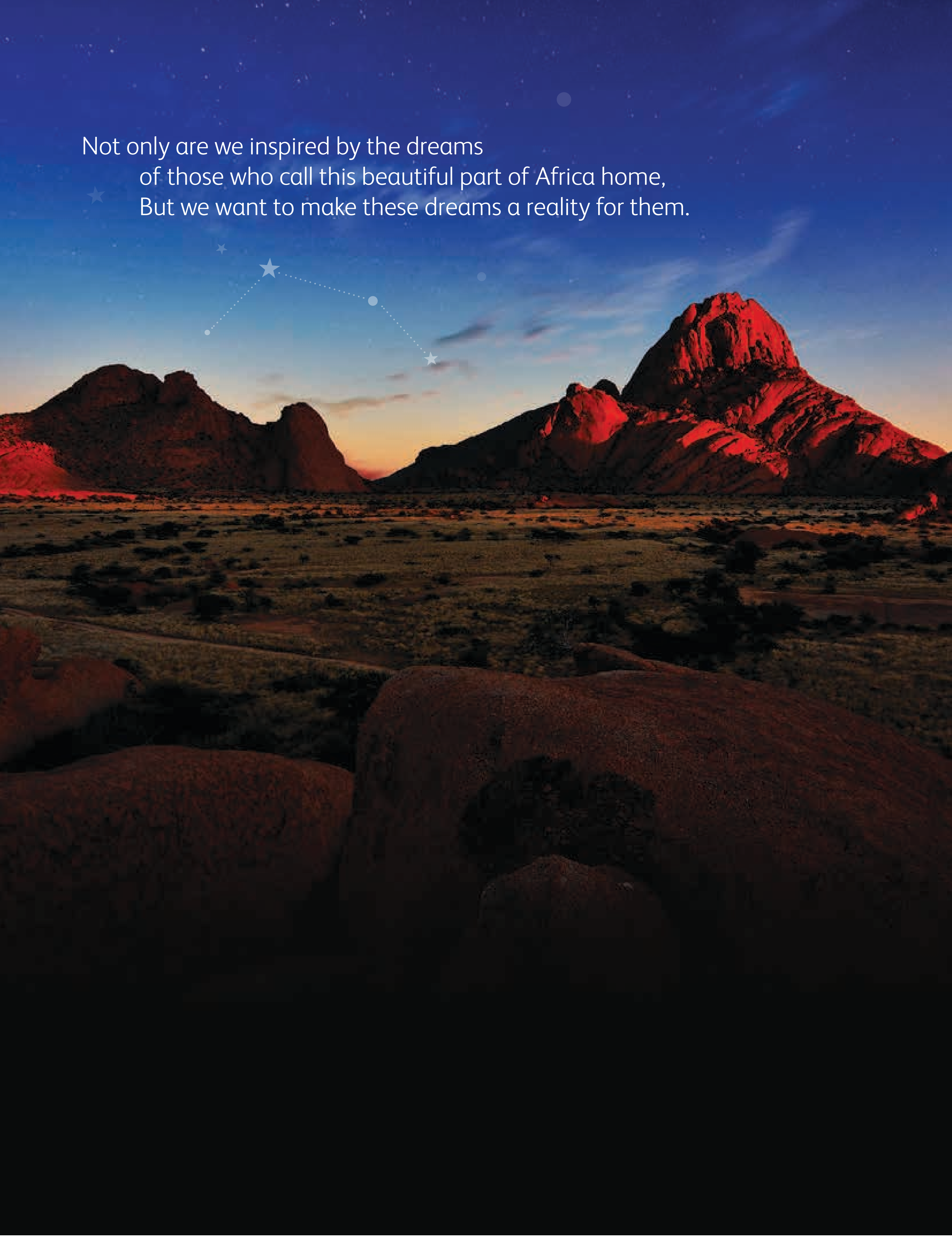
Capricorn Group changed the composition of the executive management team post the last reporting date. The reported figures therefore differ from the 2019 report and are reflective of the current executive management structure. Compensation paid to key management comprises remuneration and other employee benefits to the executive management team, which excludes executive directors' emoluments. Total compensation paid to executive management for 2020 amounted to N$43,791 million (2019: N$38,460 million).

Details pertaining to remuneration disclosures are included in the annual financial statements on pages 256 to 258.

The Remco is satisfied that the Remuneration Policy was applied during the year with no deviations and the policy achieved its objectives.

Gerhard Fourie
Chairman: Group board remuneration committee

Not only are we inspired by the dreams
of those who call this beautiful part of Africa home,
But we want to make these dreams a reality for them.



BOARD SUSTAINABILITY AND ETHICS REPORT

Capricorn Group is dedicated to enhancing and sustaining ethical business practices through leadership commitment to ethical business conduct and by institutionalising ethical behaviour.

Purpose and mandate

The Group BSEC is the custodian of ESG matters that relate, inter alia, to the Group's sustainability, stakeholder relationships, corporate citizenship and ethical standing. The committee provides oversight and monitors a range of aspects within the ambit of this role.

The committee's members, responsibilities and key focus areas are set out in the corporate governance report on from page 55.

In addition to the non-executive directors serving as members of the committee, we engaged a specialist adviser in sustainability to attend the BSEC meetings and provide input. The role contributes to the following:

- The provision of an external, independent, and unbiased perspective on the content of BSEC meetings
- Insight on potential gaps and risks
- Advice on key focus areas for management consideration
- Advice on the strategic approach for the integration of sustainability into corporate strategy
- Guidance on disclosure standards on ethics, sustainability and CSR

Milestones for 2020

- Registration of the Capricorn Foundation as a non-profit association incorporated under Section 21 of the Companies Act of Namibia
- Oversight of the implementation of the ethics strategy and ethics reporting
- Subsidiary-driven sustainability initiatives and reporting

Committee matters overview

- As recommended by the BSEC, the Group board reviewed and adopted an enhanced Corporate Social Responsibility Policy. The main objective of the policy is to provide a framework for the management of CSR activities throughout the Group to ensure proper administration of funding, and to put CSR funding to optimal use. The Group regards CSR as a component within the broader theme of sustainability.
- The Group revamped the Ethics Policy to include the protection of anonymity for whistleblowers. The board approved the revised Ethics Policy on 16 June 2020.
- The BSEC considered research done to establish the payment of legal minimum wages versus living wages by suppliers. Recommendations to address this were discussed, submitted to the Bank Windhoek executive management team and outcomes were tabled for BSEC approval. These salaries will be adjusted as part of the September 2020 annual increase. The board procurement committee also approved a contract increase to pay for the travel for cleaning employees from September 2020. Going forward, procurement will include the basic salary and benefits that outsourced employees should earn that work for third party suppliers contracted to the Group.
- The BSEC reviewed key performance indicators related to customers, procurement, society and the environment.
- The BSEC discussed stakeholder engagement reports and forward-looking stakeholder engagement plans, with an emphasis on promoting collaboration between subsidiaries.

Ethical and effective leadership in challenging times

The 2020 financial year will be remembered for three significant events that required oversight of intense stakeholder engagement and responsive leadership as part of the BSEC mandate. We provide detail on these events and outcomes to illustrate how the committee assists in creating value through its governance oversight role, while ensuring the Group remains true to its purpose.

Corruption in the fishing industry

In December 2019 a major corruption scandal was revealed in Namibia. A whistleblowing report led to an investigation into fishing licences that uncovered fraud and collusion between senior political and business figures and a range of other parties, including the Icelandic fishing conglomerate, Samherji. The exposé dealt with corrupt transactions that involved bank accounts at several Namibian banks.

The scandal created reputational risk for Bank Windhoek as one of the banks involved, and potential sanction by international anti-money laundering bodies. The Group was deeply concerned about the risk of the public losing trust in the financial system.

With a wide range of stakeholders affected by the revelation of corruption, Bank Windhoek's management engaged, both directly and through the industry forum, the Bankers Association of Namibia, its regulators, the Bank of Namibia and the Financial Intelligence Centre ("FIC"). In addition to regulatory and industry bodies, Bank Windhoek and the Group actively communicated with employees and the relevant governance structures.

Guided by, and in support of regulatory authorities, Bank Windhoek embarked on a detailed analysis of transactions and impacted accounts and provided all information to the relevant authorities. We thoroughly reviewed the control environment and identified areas for improvement. There is ongoing engagement with the FIC to respond to information requests, report progress with improvement actions and to incorporate emerging recommendations from the FIC in our action plans.

We continuously monitored printed and social media to identify potential reputational issues and to assess the public sentiment towards the banking industry and Bank Windhoek in particular. Bank Windhoek responded in the media as and when necessary.

Outcomes from our responses include a briefing by the FIC to the board.

December 2019 elections

General elections were held in Namibia on 27 November 2019, shortly after the first allegations of corruption and money laundering in the fishing industry. Namibia's president won another term and made key leadership changes which signal a change in priority and focus. This includes a new Minister of Finance, Minister of Justice, Governor of the Central Bank and Minister of Land and Agriculture. The president also instituted a high-level economic advisory panel earlier in 2019.

From a stakeholder management perspective this has an impact on the Group, as these are important portfolios that shape the environment in which we conduct business. We started engaging with the new leadership, particularly around collective COVID-19 responses.

COVID-19 in Namibia, Botswana and Zambia

Even though government, business and public responses to the pandemic played out differently in these three territories, all Group stakeholders were impacted by the pandemic.

Our focus was on ensuring the safety of our employees and clients while government is responsible for maintaining social order and providing services during this time.

Employees were kept well informed through line management and two digital channels, namely the intranet and MyCapricorn app. As a result, our lockdown transition was smooth, and our workforce was positive during the ongoing pandemic.

Each subsidiary had a crisis communication and stakeholder engagement plan which it used to direct engagement with all stakeholders. Management set up a communications hub to support collaboration across entities for information gathering and engagement.

Customer channels included SMS, email, media and the Group website, where we engaged with clients about changing operating procedures and relief measures.

Capricorn Group reached out to its extensive network to determine where help was needed and made a positive contribution towards the government and society's effort to battle the pandemic. Read more about these contributions in the Group CEO's report on page 29.

We are committed to remaining close to our stakeholders, particularly the community and government institutions responding to the pandemic. Our aim is to help identify needs and form partnerships to play an impactful role in society. To this end, we will deliberately remain flexible in our allocation of resources beyond our traditional focus areas. The needs of vulnerable communities, for example, are a top priority.

Capricorn Group CSR vision

To be inspiring Connectors of Positive Change by creating economic value in a responsible way that creates sustainable opportunities for advancing and improving the economic and social conditions in the communities in which we operate.

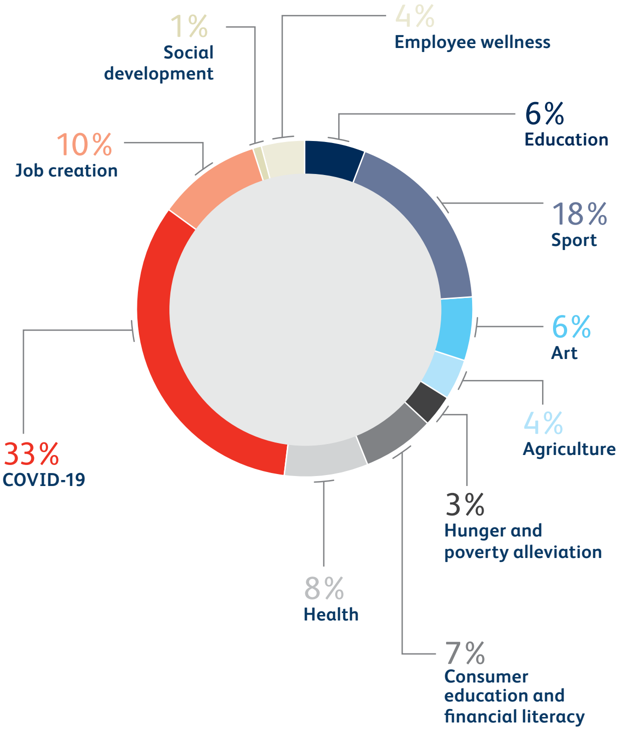
We are adapting to the gradual relaxation of the lockdown restrictions and have prepared a detailed post-lockdown plan to ensure that adequate measures are taken to protect our employees and customers, and to ensure that we continue to improve the accessibility of our services through digital channels. Read more about customer assistance in the Group CEO's report from page 23.

Embedding sustainability in the Group

Capricorn Group: social initiatives

Capricorn Group committed a total of N$5 million in response to the COVID-19 pandemic. Specific areas of support included poor and vulnerable communities, procurement of medical staff protection equipment, as well as a monetary contribution to the National Disaster Fund of Namibia. Read more about the Group's comprehensive response to the pandemic in the Group CEO's report from page 23.

Distribution of CSR funds



We focus for impact

The Capricorn Foundation will have two primary areas of investment – economic advancement and education and training. Three supplementary areas of investment are sustainability programmes, vulnerability programmes and health. We welcome applications from stakeholders requiring funding for projects aligned to our CSR vision and focus areas.

Apart from coordinating our collective response, Capricorn Group also supported specific social initiatives with a focus on youth leadership development, sports development with a focus on schools netball and rugby as well as a contribution to the Dare to Care Drought Relief Fund to support the agricultural community during a prolonged period of drought.

The Group's brand positioning of being Connectors of Positive Change was brought to life with a total of five "Changemaker" employee outreach events. These were hosted to build a culture of employee volunteerism in the community in support of the Group's CSR projects. Through this programme, more than 150 employees volunteered their time and own resources to a range of CSR projects.

Corporate social responsibility summary

Capricorn Group and its subsidiaries in Namibia, Botswana and Zambia invested N$29 million in internal and external social and environmental responsibility programmes and initiatives compared to the investment of N$25 million during 2019.

Subsidiary-driven social sustainability initiatives

Bank Windhoek

N$2.5 million was raised during the 2019 Bank Windhoek Cancer Apple Project (2018: N$3 million) and was handed over to the Cancer Association of Namibia in November 2019. The funds are used for cancer outreach programmes and maintaining the House Acacia and CHICA interim home where cancer patients from various parts of Namibia are housed during their treatment at no cost.

Through its Social Investment Fund, Bank Windhoek supports the Gondwana meal-for-two-project that feeds vulnerable communities. The project target was to reach 2,000 individuals through the distribution of meals to a number of projects located across Namibia. During the first six months, the programme provided 45,700 meals to 2,500 individuals, exceeding the target. Bank Windhoek supports several non-profit organisations that work towards poverty alleviation, job creation and supporting overall economic growth. This includes Women@Work which provides training to individuals in skills such as cooking, hospitality and needlework.

Read more about Bank Windhoek's social contributions in the sustainability report on the Bank Windhoek website.

Bank Gaborone

With health as one of its key focus areas, Bank Gaborone focused on raising cancer and diabetes awareness through two projects:

- Journey of Hope Botswana – Through this initiative the bank sponsors a group of women made up of a team of 30 doctors, nurses and support crew, including cancer survivors, who partake in an annual motorcycle ride to promote testing for breast cancer and raising breast cancer awareness. Since inception, the project has reached over 10,000 people around the country and conducted over 10,000 breast examinations nationwide.
- Bank Gaborone diabetes apple project – Bank Gaborone partnered with the Diabetes Association of Botswana ("DAB"), Tsetseng Retail Group and SPAR Botswana to raise funds for the DAB by selling apples in SPAR's stores. Bank Gaborone also conducts tests for diabetes at its branches and dispenses information to its customers. During the year, Bank Gaborone and its partners successfully raised BWP350,000 towards this project.

The adopt-a-school programme, now in its third year, involves each branch or business unit selecting a public school within its vicinity. The branch or business unit then takes initiatives to assist the school with specific needs to create an environment conducive for learning. Through this initiative, a total of 12 schools have been assisted with books, school uniforms, sanitary towels and repainting of school premises.

Capricorn Asset Management

In terms of social contributions, CAM committed N$472,110 plus an extra N$500,000 to corporate social responsibility initiatives during the financial year. Our signature project is the Class of 20XX Basic Education Project in which less privileged grade 1 learners receive school clothes to start their education. Where possible these clothes are sourced through local manufacturers.

We have an active affordable housing investment through Calibre Capital Trust and some of our unit trusts, to the amount of N$13.3 million. The total project has thus far supported the construction 64 affordable houses. Over the past year CAM funded two bursaries for honours studies for two previously disadvantaged students, who graduated and were awarded internships with CAM.

entrépo

Entrepo's primary social impact focus is on food and education. During the extreme drought period, Entrepo ran a feeding scheme that distributed 25 tons of maize meal amounting to N$80,000 through our branches in the northern parts of Namibia to 5,000 families.

We made a N$120,000 contribution to the Step out of Poverty through Education, Encouragement and Support ("SPES") charity relief fund to be used for the distribution of food parcels, providing at-risk children with a daily healthy meal.

In terms of education, Entrepo supported Kanono Combined Secondary School with 150 scientific calculators and two full science kits. We also funded the restoration and replacement of desks and chairs for the scholars. The combined value of the assistance to the school amounted to N$68,380.

Entrepo purchased full sets of teaching materials for 130 primary school learners in Gochas at a cost of N$36,176 and sponsored forklift training for 16 trainees through Kayec Trust to the amount of N$20,800.

Entrepo is involved with Side-by-Side early intervention care centre, which caters primarily for the development and care of disabled children in and around Windhoek. N$180,000 was donated to the centre to fund the continuation of their programmes.

Subsidiary-driven environmental sustainability initiatives

Bank Windhoek

Bank Windhoek displayed its commitment to sustainable business activities by creating a permanent and dedicated position in the Treasury Department to identify sustainable funding and projects. Our aim is to establish Bank Windhoek as the green financier of choice for sustainable projects.

Bank Windhoek is the only commercial bank in Namibia to employ a dedicated resource for this purpose. Drivers for renewable energy initiatives include drastically lower production costs, growing concern around climate change, evolving global energy policies and increased pressure from investors on companies to adopt ESG policies.

We are addressing sustainability as part of our core business through our green asset portfolio. The bank launched the first green bond in 2019. This enabled us to meet our clients' sustainability requirements and develop a complete value chain offering. We can now raise green funding and offer favourable green loans with competitive active terms that contribute to a low-carbon and customer-resilient future. Read more in the case study in the section on material matters on page 50.

Bank Windhoek is committed to ensuring that clients have enough access to funding that support Namibia in its transition to an environmentally sustainable and low-carbon economy. This will benefit society at large in the long term.

The momentum gained after launching the first green bond was unfortunately dampened by the effects of the protracted drought experienced across the country during 2018/19 and economic shock caused by COVID-19.

Internal operational initiatives

Initiatives to reduce energy consumption at the Capricorn Group building in Windhoek include the replacement of air conditioners and the installation of light-emitting diode ("LED") energy-saving bulbs. All newly renovated branches and agencies use LED bulbs. Customers can opt to receive electronic statements to reduce overall paper usage.

Bank Gaborone

We measure a range of indicators to minimise our environmental impact through the use of paper, electricity and fuel. For each indicator, we set a target for branches and business units, which is reviewed by the bank's executive management team monthly.

Cavmont Bank

In line with the energy-saving measures originating from nationwide power shortages, we did not use air-conditioning during load shedding to reduce generator use.

Capricorn Asset Management

CAM aims to be environmentally friendly by actively changing its behaviours and that of our clients and supporting green energy investments.

Our two main environmental initiatives:

- We reduced paper usage by encouraging clients to migrate to digital platforms. We ensured that less than 30% still receive statements via post. We expect this number to be less than 10% by December 2020.
- We make green energy investments through our private debt fund, Caliber Capital Fund, and some of our unit trusts, notably the Capricorn High Yield Fund. We have invested more than N$92.9 million in multiple clean energy solutions over the past two years. These solar projects generate more than 10 megawatts in clean energy.

The Capricorn Foundation

The Capricorn Foundation, a non-profit association incorporated under section 21 and a full subsidiary of Capricorn Group, was officially incorporated on 12 February 2020. The name was trademarked, and the board appointed two interim directors, Johan Swanepoel and Nakazibwe-Sekandi. We commenced the registration of the Capricorn Foundation as a welfare organisation with the Ministry of Health and Social Services.

The Foundation will be funded by contributions from Group subsidiaries. This was lower than anticipated for 2020 due to COVID-19 and priorities for 2021 will shift as a consequence. The inaugural board meeting of the Capricorn Foundation was held on 1 July 2020. This will be followed by an internal and external launch to create awareness and identify key projects to support.

Creating an ethical culture

Our ethics vision is to create an ethical organisation where our stakeholders are motivated to live our values of openness, dedication and inspiration.

Capricorn Group is dedicated to enhancing and sustaining ethical business practices through leadership commitment to ethical business conduct and by institutionalising ethical behaviour. Ethical leadership means setting the tone from the top. Our ethical culture is directed by the ethics strategy and other initiatives, aimed at proactively and holistically managing ethics risk.

We implement our ethics strategy and reporting framework according to four focus areas:

LEADERSHIP COMMITMENT
We want to attain increased maturity in our ethical culture year-on-year as measured by our independent ethics risk assessment to be conducted every two years. Leadership buy-in will enable us to put structures in place to facilitate the establishment of an ethical culture and demonstrate tone at the top.

EMPLOYEE ETHICS AWARENESS
We promote and communicate Capricorn Group's ethical standards through leadership, training and awareness campaigns, and provide effective and trusted safe reporting mechanisms. Our plan is to design and implement a three-year awareness and communication strategy to increase ethics awareness.

SETTING ETHICAL STANDARDS
Capricorn Group's ethical standards are clearly defined on our Group Code of Ethics and Conduct, values and ethics-related policies. We aim to increase employees' knowledge of acceptable and unacceptable behaviour and ultimately reduce unethical behaviour.

MANAGE ETHICS RISKS
We manage ethics risks and opportunities as identified in the most recent ethics risk assessment. This involves identifying and prioritising ethical risks and opportunities and implementing a risk management plan with remediation actions.

As with any organisational culture change exercise, entrenching an ethical culture could take several years to reach maturity. The Group is in its second year of implementing its ethics strategy and programme. The initiatives for the year are set out below.

We enhanced ethics reporting by building trust in existing safe reporting structures and procedures. The fraud hotline was repositioned as an anonymous tip-off line, managed by Deloitte as an independent partner. Any alleged fraud, corruption, or unethical conduct can be reported to the line via landline or mobile. We conducted a survey into the effectiveness of and perceptions regarding the fraud hotline, followed by awareness campaigns to explain how the repositioned anonymous tip-off line works. The emphasis was on anonymity and protection of whistleblowers as these were the main concerns raised by the survey.

We embedded ethical standards for suppliers and business partners through the Suppliers' Code of Conduct. The Suppliers' Code of Conduct was approved and implemented at Bank Windhoek as a start.

We provided focused ethics training for management and non-managerial employees. Board training for Group directors and executives was conducted by the Ethics Institute of South Africa. We are investigating Group-wide online ethics training solutions aimed at all employees.

Ethics is an agenda point in the employee induction programme. Ethical content and videos now form part of the Fraud and Risk Culture agenda items at induction.

We plan to conduct the annual ethics risk assessment to measure ethics objectively. During the last quarter of the financial year the Ethics Institute of South Africa started assessing the Group's mode of ethics management to produce an ethics risk profile. This will inform the next steps in our management of ethics. The completion of the ethics assessment was impacted by the COVID-19 pandemic and a report will be published the next year.

We designed and implemented a sustainable, consistent annual ethics communication campaign for internal stakeholders. The campaign will run as soon as possible after COVID-19 restrictions have been lifted and will consist of interactive assessments, competitions and other communication elements.

Capricorn Group's commitment to the UNGC principles

Capricorn Group reaffirmed its support of the 10 principles of the United Nations Global Compact ("UNGC") in the areas of human rights, labour, environment and anti-corruption.

The following examples provide a summary of the Group's communication on progress and describe the Group's actions to continually improve the integration of the UNGC and its principles into business strategy, culture and daily operations.

Human rights

Human rights are enshrined in the constitutions of Namibia, Botswana and Zambia. Capricorn Group is committed to upholding human rights and the laws of the jurisdictions in which we operate. Our internal policies and procedures protect employees' human rights and detect and remedy violations of policies. Key performance indicators are tracked through the sustainability dashboard to support the advancement and protection of human rights. These include the percentage of permanent female employees, women in middle and senior management, the percentage of employees with disabilities, racially disadvantaged permanent employees and racially disadvantaged persons in middle and senior management.

Read more about these aspects in the section on our material matters from page 41.

Labour

The Group does not use child labour, migrant workers or forced labour. The rights of workers are protected by internal policies and labour laws, which regulate employment in all jurisdictions. The risk of violating the rights of workers is low. Workers have a right to organise themselves through labour unions, as protected by law.

The HR committee has oversight of labour-related matters, including the policy framework. New employees are made aware of policies through an induction programme, and policy changes are communicated to all employees as and when they occur. A formal grievance procedure protects employee rights.

The Remuneration Policy outlines the Group's remuneration principles and is the guiding document in terms of fair and equitable remuneration.

Read more about these aspects in the section on material matters from page 41 and the remuneration report from page 90.

Environment

As a financial services provider, the Group's operations have a limited direct environmental impact. However lending activities can have an indirect impact on society and the environment if this is not managed. Bank Windhoek manages environmental and social impact through the Environmental and Social Management System Policy and Procedure.

Due diligence is done on all medium and high risk loans to ensure environmental and social compliance with national laws and international best practice, particularly for industries such as mining and construction. Due diligence on high risk loans includes checking for compliance using the Bank Windhoek Permit Manual, ensuring that the client takes care of the health and safety of employees, and ensuring that all risks to the environment and society is mitigated through sound management.

Once due diligence is completed, Bank Windhoek works with clients to bridge possible gaps identified by the ESMS process.

During the year Bank Windhoek assessed 1,832 low risk, 3,356 medium risk and 850 high risk loans, resulting in the bank's portfolio being concentrated in medium environmental and social risk loans.

No changes have been made to the Bank Windhoek exclusion list, which is used to assess clients against activities that are not permitted due to unacceptable environmental and social impacts. No applications were declined on account of high risk, the exclusion list or any other environmental or social related reasons. No loans were turned down on account of the ESMS and there are no clients at risk of material breaches of environmental laws and regulations or unacceptable social and environmental impacts.

Read more about environmental aspects in the section on material matters from page 41 and the Group CEO's report from page 23.

Anti-corruption

Capricorn Group is determined to maintain a culture of high ethical and moral standards, honesty and opposition to fraud and corruption. As a listed entity, Capricorn Group complies with King IV™, which requires a statement by the board confirming compliance with all applicable laws. This includes the Namibian Anti-Corruption Act, 8 of 2003, which criminalises corrupt conduct and practices.

The BSEC oversees ethics reporting. The Group's various policies aim to prevent corruption internally and externally, including the Group Code of Ethics and Conduct Policy, Group Procurement Policy, Group Whistleblower Policy, the Bank Windhoek Forensic Policy and the Group Financial Crime Risk Framework.

The Procurement Policy includes a Suppliers' Code of Conduct, which requires suppliers to adhere to standards of good conduct towards employees and the environment and in relation to anti-bribery, anti-corruption, reporting and disclosure.

We create awareness of anti-corruption through induction training, internal communication and annual conferences held for branch administrators that cover anti-corruption.

No cases of corruption or bribery were reported or investigated within or against the Group.

Read more about ethics in the Group chairman's message from page 10 , in the section on material matters from page 41 and in the governance report from page 55.

Future focus areas

Our priority for the next financial year will be to deal with the changes brought about by the COVID-19 pandemic and emerging needs of stakeholders. These are most notably the plight of our customers, safety of our employees and the Group's sustainability.

To further embed corporate social responsibility and sustainability programmes in subsidiaries, we will prioritise the following:

- Embedding the Capricorn Foundation as the Group's vehicle for its corporate social responsibility initiatives.
- Bank Windhoek will continue to support clients through tailor-made financial solutions where appropriate during the COVID-19 pandemic and beyond. In addition, the bank will continue to provide support to vulnerable communities through projects aligned with national priorities.

We call on all stakeholders to be vigilant and help us eradicate corruption, crime, fraud and unethical behaviour. Capricorn Group has an independent, anonymous and confidential hotline available where you can report any incident safely. Reports will be routed to our head of forensics and the Group head of compliance and anti-money laundering to take action, if required.

Call the toll-free number
0800 001 050

Email: capricorn@tip-offs.com

Website: www.tip-offs.com

This forms part of our ethics programme and aims to give employees, customers and suppliers a way to tell us about unethical conduct.

- CAM will focus on creating a platform for our clients to co-contribute with CAM to a larger scope of worthy initiatives and will cover poverty and hunger alleviation, conservation, healthcare, education and sport.
- Entrepo's focus areas will likely remain unchanged for the foreseeable future. We remain committed to making a significant social impact in the food and education sectors of Namibia.
- Bank Gaborone intends to support its clients through payment holidays where COVID-19 pandemic impact is evident. The bank will continue to provide support to the diabetes apple project. We continue to focus on existing sustainability priorities, which is the reduction in paper, power, fuel and water usage. This entails ongoing tracking of expenditure and leveraging the benefits from our new "green" head office building.
- Cavmont Bank will continue providing assistance to customers that are affected by the COVID-19 pandemic through tailormade financing solutions. In this regard Cavmont Bank will participate in the Bank of Zambia's Medium Term Refinance Facility to make affordable funding available to financial institutions so that the capacity exists to support customers affected by COVID-19.

Reporting oversight

Members of BSEC were involved in developing and approving the Group's material matters, as set out on page 41. The committee had oversight of the non-financial key performance indicators that are linked to the material matters. It was involved in the process of reviewing and recommending the integrated annual report for approval to the board. The committee recommended the inclusion of the 2019 integrated annual report in annual feedback to the UNGC.

Compliance statement

There was no non-adherence with codes of best practice applicable to the areas within the committee's mandate brought to its attention. The committee has no reason to believe that any such non-compliance or non-adherence occurred.

The committee is satisfied that it fulfilled its responsibilities in accordance with its terms of reference.

Gida Nakazibwe-Sekandi
Chairperson: board sustainability and ethics committee

01 September 2020

GLOSSARY OF TERMS

AFD	Agence Françoise de Development
AML	Anti-money laundering
BARC	Board audit and risk committee
BIPA	Business and Intellectual Property Authority
BOBEU	Botswana Bankers Employees Union
BSEC	Board sustainability and ethics committee
CAB	Cancer Association of Botswana
CAM	Capricorn Asset Management
CCHZ	Cavmont Capital Holdings Zambia Plc
CIH	Capricorn Investment Holdings
Companies Act of Namibia	The Companies Act of Namibia, 28 of 2004
CSR	Corporate social responsibility
CUTM	Capricorn Unit Trust Management
EASSY	Eastern African Submarine Cable System
ESG	Environmental, social and governance
ESMS	Environmental and Social Management System
ESRM Policy	Environmental and Social Risk Management Policy
FATF	Financial Action Task Force
FD	Financial director
FIC	Financial Intelligence Centre
GBITC	Group board information technology committee
GDP	Gross domestic product
GHG	Greenhouse gas
GIPF	Government Institutions Pension Fund
GPRO	Group principal risk officer
HR	Human resources
IFRS	International Financial Reporting Standards
IIRC <IR> Framework	The International Integrated Reporting Council's Integrated Reporting Framework
King IV	King IV Report on Corporate Governance™ for South Africa, 2016
LED	Light-emitting diode
LuSE	Lusaka Stock Exchange
MIC	Market identifier code
NAFIWU	The Namibian Financial Institutions Union
NAMFISA	Namibia Financial Institutions Supervisory Authority
NamCode	Corporate Governance Code for Namibia
NRCS	Namibia Red Cross Society
NSFAF	Namibia Students Financial Assistance Fund
NSX	The Namibian Stock Exchange
Remco	Remuneration committee
ROE	Return on equity
PV	Photovoltaic
S&P	Standard & Poor's
SMEs	Small and medium-sized enterprises
SPES	Step out of Poverty through Education, Encouragement and Support
SUNREF	Sustainable User of Natural Resources and Energy Finance
UNGC	United Nations Global Compact
WACS	West Africa Cable System
ZUFIAW	Zambia Union for Financial Institutions and Allied Workers


The future shines brightly,
and we will journey towards it as one.
We Are Capricorn.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

for the year ended 30 June 2020

The directors are responsible for the preparation, integrity and objectivity of the financial statements that fairly present the state of affairs of the company and the Group at the end of the financial year, the profit and cash flow for the year and other information contained in this report.

To enable the directors to meet these responsibilities:

- The board and management set standards and management implements systems of internal control, accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.
- The Group's internal audit function, which operates unimpeded and independently from operational management, and has unrestricted access to the various Group board audit, risk and compliance committees, appraises, evaluates and, when necessary, recommends improvements in the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business.
- The board audit, risk and compliance committees of the company and its subsidiaries, together with the external and internal auditors, play an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review.

The Group consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis.

The financial statements presented on pages 115 to 264 have been prepared in accordance with the provisions of the Companies Act of Namibia and comply with International Financial Reporting Standards ("IFRS").

The directors have no reason to believe that the company and the Group as a whole will not be going concerns in the year ahead, based on forecasts and available cash resources. These financial statements have accordingly been prepared on a going concern basis.

Comprehensive insurance cover is in place as required by the Bank of Namibia BID 14 – 'Determinations on minimum insurance for banking institutions'.

The financial statements have been audited by the independent auditing firm, PricewaterhouseCoopers, who was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditor during the audit were valid and appropriate. The independent auditor's report is presented on pages 109 to 114.

The financial statements, set out on pages 115 to 264, were authorised and approved for issue by the board of directors on 15 September 2020 and are signed on their behalf:

J J Swanepoel
Group chairman

M J Prinsloo
Group chief executive officer

INDEPENDENT AUDITOR'S REPORT

To the members of Capricorn Group Ltd

OUR OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Capricorn Group Ltd ("the company") and its subsidiaries (together the "the Group") as at 30 June 2020, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Namibia.

WHAT WE HAVE AUDITED

Capricorn Group Ltd's consolidated and separate financial statements set out on pages 115 to 264 comprise:

- The directors' report for the year ended 30 June 2020
- The consolidated and separate statements of financial position as at 30 June 2020
- The consolidated and separate statements of comprehensive income for the year then ended
- The consolidated and separate statements of changes in equity for the year then ended
- The consolidated and separate statements of cash flows for the year then ended
- The notes to the consolidated annual financial statements, which include a summary of significant accounting policies

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report.

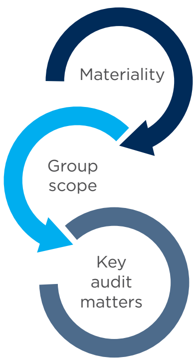
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants *International Code of Ethics for Professional Accountants (including International Independence Standard)* ("Code of Conduct") and other independence requirements applicable to performing audits of financial statements in Namibia. We have fulfilled our other ethical responsibilities in accordance with the Code of Conduct and in accordance with other ethical requirements applicable to performing audits in Namibia.

OUR AUDIT APPROACH

Overview



Overall Group materiality

- *Overall Group materiality: N$68,345,000, which represents 5% of consolidated profit before income tax from continuing operations.*

Group audit scope

- *The Group audit scope included full scope audits of the company, due to its financial significance to the Group, and full scope audits of three components in the Group based on statutory audit requirements. We also performed audits of certain account balances at three other components.*

Key audit matters

- *Expected credit losses ("ECL") on loans and advances and financial assets at amortised cost.*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

INDEPENDENT AUDITOR’S REPORT (continued)

to the members of Capricorn Group Ltd

MATERIALITY

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Group materiality	N$68,345,000
How we determined it	*5% of profit before tax*
Rationale for the materiality benchmark applied	*We chose consolidated profit before income tax from continuing operations as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.*

HOW WE TAILORED OUR GROUP AUDIT SCOPE

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Our scoping assessment, for Group reporting purposes, included consideration of financially significant components identified based on the components’ contribution to consolidated profit before tax. The significant components identified included the company, Bank Windhoek Ltd, Capricorn Investment Holdings Botswana and Entrepo Holdings Ltd. These entities were subjected to a full scope audit. Entities included in our audit scope operate in Namibia, Botswana and Zambia. We also performed audits of certain account balances at three other components. Analytical reviews were performed over any remaining components where audit work was not performed, which confirmed that no further risks existed.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by the Group engagement team, component auditors from the local PwC network firm, other PwC network firms and one non-PwC firm operating under our instruction. The Group engagement team was directly responsible for the audit of the Group consolidation, and the company. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

We had various interactions with our component teams in which we discussed and evaluated recent developments, the scope of the audits, audit risks, materiality and our audit approaches. We discussed the reports of the component teams, the findings of their procedures and other matters which could be of relevance for the consolidated financial statements.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR’S REPORT (continued)

to the members of Capricorn Group Ltd

Key audit matter	How our audit addressed the key audit matter
Expected credit losses (“ECL”) on loans and advances and financial assets at amortised cost *Refer to note 3.2 (Credit risk), note 4(a) (Critical accounting estimates and judgements in applying accounting policies), note 14 (Financial assets) and note 17 (Loans and advances to customers) to the consolidated and separate financial statements.* *This key audit matter is applicable to the consolidated and separate financial statements.* At 30 June 2020, gross loans and advances amounted to N$41.5 billion against which ECL of N$1.5 billion was recognised for the Group. Gross financial assets at amortised cost amounted to N$723.6 million, against which ECL of N$10.8 million was recognised for the Group. Gross financial assets at amortised cost for the company amount to N$462.3 million, against which ECL of N$167.4 million was recognised. The measurement of ECL requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Where customers are granted payment holidays, the Group compares the risk of default on these loans against the risk under the original terms, and determines whether there has been a change in credit risk through the use of specific models for modified assets. Key areas of significant management judgement and estimation applied in the determination of ECL on loans and advances and financial assets at amortised cost are disclosed in notes 3.2 and note 4(a) to the consolidated and separate financial statements, and relate to the: • Evaluation of significant increase in credit risk (“SICR”); • Determination of the write-off point • Inclusion of forward-looking information and macro-economic variables in the ECL calculation • Calibration of ECL statistical model components, i.e.: probabilities of default (“PDs”), losses given default (“LGDs”) and Exposure at Default (“EAD”) • Impacts of the COVID-19 pandemic on the determination of ECL on loans and advances and financial assets at amortised cost We determined the measurement of ECLs on loans and advances and financial assets at amortised cost to be a matter of most significance to our current year audit due to the degree of judgement and estimation applied by management in determining the ECLs.	Our audit procedures addressed the key areas of significant judgement and estimation in forward-looking information and uncertainties in relation to the COVID-19 pandemic, as it relates to management’s determination of the ECL on loans and advances as follows: *Evaluation of SICR* We performed the following procedures, in respect of which we noted no material exceptions: • We recalculated the impact of SICR, applying the assumptions and data included in management’s model. • We tested the performance of SICR thresholds applied and the resultant transfer ratio into stage 2 for SICR. This included benchmarking of the volume of up to date accounts transferred to stage 2 against historical data. • We tested, through inspection of relevant underlying documentation, a sample of loans and advances that were restructured using payment holidays as a result of the COVID-19 pandemic to assess whether the payment holidays were granted to qualifying clients only. We evaluated the SICR from the date of restructuring to the end of the reporting period. *Determination of write-off point* • We evaluated management’s assessment of historical post-write-off recoveries, to assess the point at which there was no reasonable expectation of further recovery. This was done by comparing management’s policy on write-offs to the actual historical write-offs. We found the policy to be in line with the historical trend. • Through recalculation, we tested the application of the write-off policy, including the exclusion of post-write-off recoveries from the Loss Given Default (“LGD”). • We tested write-offs and recoveries that took place during the current year on a sample basis, by agreeing the amount written off to management’s policy. We also agreed the amount as received per bank statements for recoveries to the amounts recorded. We noted no exceptions. • We assessed write-offs on loans and advances which have been restructured by means of payment holidays granted, by evaluating such against the write-off policy. We noted no instances of non-compliance with the write-off policy. • We tested, on a sample basis, whether SICR has been appropriately evaluated for on an account level by assessing the impact of COVID-19 on these accounts through evaluating payments made and reconciling this to instalments required. • We evaluated whether there are indicators of SICR by comparing the staging of a sample of loans to an independent staging based on the assumptions and data included in management’s model, as well as on our own independent assumptions, in particular around the outlook on the economy due to the COVID-19 pandemic.

INDEPENDENT AUDITOR'S REPORT (continued)

to the members of Capricorn Group Ltd

Key audit matter	How our audit addressed the key audit matter
	Inclusion of forward-looking information and macroeconomic variables in the ECL calculation • We evaluated the assumptions used in the forward-looking economic model, specifically around the forward-looking scenarios used, the macroeconomic variables considered, as well as the macroeconomic outlook. We compared these to our internal actuarial and economic statistics and independent market data, with specific consideration of the impact of the COVID-19 pandemic, and found it to be comparable. • For a sample of stage 3 exposures, we independently recalculated the ECL based on our assessment of the expected cash flows and recoverability of collateral at an individual exposure level. No material exceptions were noted. • On a sample basis, we assessed whether the loss event (that is the point at which exposures are classified as credit-impaired) had been identified in a timely manner by considering watch lists as well as credit committee meeting minutes. • For collateral held, we inspected legal agreements and other underlying documentation to assess the existence and legal right to collateral on a sample basis. No material exceptions were noted. • On a sample basis, we tested the reasonability of haircuts used in collateral valuations by comparing the market value to recent sales that occurred. We compared the force sales value haircut to current market conditions. We found haircuts applied to be in line with recent market valuations. • We tested whether loans are included in the correct loan stage by recalculating the days in arrears for a sample of loans. We noted that loans are correctly grouped in stages. *Calibrating of ECL statistical model components (PD, EAD, LGD)* • We obtained an understanding of the methodologies and assumptions used by management in the various ECL model components and how these were calibrated to use historical information and forward-looking information to estimate future cash flows. We assessed whether the methodologies applied were in line with International Financial Reporting Standard 9 – Financial Instruments, and whether the assumptions applied were comparable to available historical and market data. We found the methodologies to be consistent with the requirements of the standard, and accepted the assumptions applied. • We utilised our actuarial expertise to reperform the ECL calculation on loans and advances and noted no material exceptions.

INDEPENDENT AUDITOR'S REPORT (continued)

to the members of Capricorn Group Ltd

Key audit matter	How our audit addressed the key audit matter
	Our audit procedures addressed the key areas of significant judgement and estimation as it relates to management's determination of the ECL on financial assets at amortised cost, as follows: • We independently determined PDs with reference to current and relevant market information available. No significant variances were noted between these, and the PDs used by management in the ECL calculation. • We recalculated EAD and LGD with reference to the contractual arrangements relating to the individual instruments. No material variances were noted. • We recalculated the ECL using these independently determined PD, EAD and LGD inputs, and noted no material variances from the ECL calculated by management.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the document titled "Capricorn Group 2020 integrated annual report". The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Namibia, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

INDEPENDENT AUDITOR'S REPORT (continued)

to the members of Capricorn Group Ltd

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers.

PricewaterhouseCoopers
Registered Accountants and Auditors
Chartered Accountants (Namibia)

Per: R Nangula Uaandja
Partner

Windhoek
15 September 2020

DIRECTORS' REPORT

for the year ended 30 June 2020

The directors herewith submit their report with the annual financial statements of Capricorn Group Ltd ("the company") for the year ended 30 June 2020.

1. GENERAL REVIEW

Capricorn Group is a Namibian registered holding company and has been listed on the Namibian Stock Exchange ("NSX") since 20 June 2013. Its investments comprised 100% shareholdings in Bank Windhoek Ltd, Capricorn Asset Management (Pty) Ltd, Capricorn Unit Trust Management Company Ltd, Mukumbi Investments Ltd, Capricorn Capital (Pty) Ltd, Capricorn Investment Group (Pty) Ltd, Capricorn Mobile (Pty) Ltd, Capricorn Hofmeyer Property (Pty) Ltd, Namib Bou (Pty) Ltd, an effective 97.9% shareholding in Cavmont Capital Holdings Zambia Plc, a 55.5% shareholding in Entrepo Holdings (Pty) Ltd and an 84.8% shareholding in Capricorn Investment Holdings (Botswana) Ltd, throughout the year under review. The company has 29.5% shareholding in Sanlam Namibia Holdings (Pty) Ltd, 28% in Santam Namibia Ltd, 17.7% in Paratus Namibia Holdings Ltd and 30% in Paratus Group Holdings Ltd. During the year the company registered the Capricorn Foundation (Non-profit association incorporated under section 21).

2. BUSINESS ACTIVITIES

The following business activities are conducted through the company's subsidiaries and associates:

Subsidiaries:

- Bank Windhoek Ltd (BW)
  - Banking
- Namib Bou (Pty) Ltd
  - Property development and property valuation
- Capricorn Unit Trust Management Company Ltd ("CUTM")
  - Unit trust management
- Capricorn Asset Management (Pty) Ltd ("CAM")
  - Asset management
- Capricorn Group Employee Share Ownership Trust
  - Special purpose entity for share incentive scheme
- Capricorn Group Employee Share Benefit Trust
  - Special purpose entity for share incentive scheme
- Capricorn Investment Holdings (Botswana) Ltd ("CIHB")
  - Investment holding company
- Cavmont Capital Holdings Zambia Plc ("CCHZ") (classified as a discontinued operation)
  - Investment holding company
- Capricorn Capital (Pty) Ltd ("CAP")
  - Financial consultancy
- Mukumbi Investments Ltd ("Mukambi")
  - Investment holding company
- Entrepo Holdings (Pty) Ltd ("Entrepo")
  - Investment holding company
- Capricorn Investment Group (Pty) Ltd
  - Group support services
- Capricorn Mobile (Pty) Ltd
  - Mobile telecommunication services
- Capricorn Foundation (Non–profit association incorporated under section 21)
  - Corporate social responsibility ("CSR") vehicle
- Capricorn Hofmeyer Property (Pty) Ltd
  - Property investment

DIRECTORS' REPORT (continued)

for the year ended 30 June 2020

Subsidiaries of Bank Windhoek Ltd:

- Bank Windhoek Nominees (Pty) Ltd (dormant)
  - Custodian of third-party investments
- BW Finance (Pty) Ltd
  - Microlending
- Bank Windhoek Properties (Pty) Ltd
  - Property investment

Subsidiaries of Capricorn Investment Holdings (Botswana) Ltd:

- Bank Gaborone Ltd ("BG")
  - Banking
- BG Insurance Agency (Pty) Ltd (subsidiary of BG)
  - Insurance brokers
- CIH Insurance Brokers (Pty) Ltd (dormant)
  - Insurance broking
- Peo Micro (Pty) Ltd (dormant)
  - Microlending
- Capricorn Asset Management (Botswana) (Pty) Ltd (dormant)
  - Asset management

Subsidiary of Cavmont Capital Holdings Zambia Plc: (classified as a discontinued operation):

- Cavmont Bank Ltd ("CB") (classified as a discontinued operation)
  - Banking

On 16 June 2020, the Group signed a term sheet with Access Bank (Zambia) Ltd, a subsidiary of Access Bank Plc, to sell its banking subsidiary in Zambia, Cavmont Bank Ltd, a wholly owned subsidiary of Cavmont Capital Holdings Zamibia Plc. The associated assets and liabilities were consequently presented as held for sale as at 30 June 2020.

Subsidiaries of Entrepo Holdings (Pty) Ltd

- Entrepo Finance (Pty) Ltd
  - Microlending
- Entrepo Life Ltd
  - Long-term insurance

Associates:

- Sanlam Namibia Holdings (Pty) Ltd
  - Long–term insurance
- Santam Namibia Ltd
  - Short–term insurance
- Paratus Namibia Holdings Ltd
  - Holding company for ICT network solutions company
- Paratus Group Holdings Ltd
  - ICT network solutions, satellite connectivity and infrastructure.

Registered address of Capricorn Group Ltd:

6th floor
Capricorn Group Building
Kasino Street
Windhoek
Namibia

Company registration number: 96/300

Country of incorporation: Republic of Namibia

DIRECTORS' REPORT (continued)

for the year ended 30 June 2020

3. FINANCIAL RESULTS AND DIVIDENDS

The directors report that the Group's net profit after taxation from the above business activities for the year ended 30 June 2020 amounted to:

	2020 N$'000	2019 N$'000
Profit for the year	856,412	1,015,299

Normal dividends of N$342.7 million (2019: N$311.5 million) were declared and paid by the company during the year under review. Refer to note 36 to the consolidated annual financial statements for details on dividends per share.

Full details of the financial results of the company and the Group are set out on pages 120 to 264.

4. SHARE CAPITAL

4.1 Ordinary shares

The company's authorised share capital is 600,000,000 ordinary shares of 2.5 cents each.

For full details on the changes to issued ordinary share capital, refer to note 31 to this consolidated annual financial statements.

4.2 Preference shares

The company has 1,000,000 authorised preference shares of 1 cent each, 35,000 Class A preference shares and 30,000 Class B preference shares both of 1 cent shares.

For full details on the issued preference share capital and the change to issued preference share capital, refer to notes 26 and 31 to the consolidated annual financial statements.

4.3 Share analysis – ordinary shares

The following shareholders have a beneficial interest of five percent or more of the issued ordinary shares of the company at year-end:

	2020 %	2019 %
Capricorn Investment Holdings Ltd	43.1	43.1
Government Institutions Pension Fund	25.9	25.9
Nam-mic Financial Services Holdings (Pty) Ltd	8.0	8.0
Held by the public (93,956,811 ordinary shares (2019: 93,208,870))	18.1	18.0
Held by other non-public shareholders	4.9	5.0
– Directors and executive managements' direct and indirect shareholding other than companies mentioned above (14,834,813 ordinary shares (2019: 14,991,915))	2.9	2.9
– Capricorn Group Employee Share Ownership Trust (7,447,001 ordinary shares (2019: 8,034,134))	1.4	1.5
– Capricorn Group Employee Share Benefit Trust (3,420,000 ordinary shares (2019: 3,420,000))	0.6	0.6

4.4 Share analysis – preference shares

	2020 %	2019 %
Santam Namibia Ltd	2.3	2.3
Capricorn Investment Holdings Ltd	37.2	37.2
First National Bank of Namibia Ltd	60.5	60.5

DIRECTORS' REPORT (continued)

for the year ended 30 June 2020

4. SHARE CAPITAL (continued)

4.5 Share incentive plans

The Group operates two equity-settled share-based compensation plans: (1) a share appreciation rights plan ("SAR") and (2) a conditional share plan ("CSP"), under which the entities within the Group receive services from employees as consideration for equity instruments (shares) of Capricorn Group. All grants under the SAR and CSP plans are subject to approval by the Group board remuneration committee ("Remco"). Refer to note 33 to the consolidated annual financial statements and the remuneration report (unaudited) for more information.

The Group also operates a share purchase scheme (note 17 to the consolidated annual financial statements) and the Capricorn Group Employee Share Benefit Trust. The Capricorn Group Employee Share Benefit Trust is intended as an incentive to employees on lower job levels to promote the continued growth of the Group by giving them an opportunity to share in dividends distributed by the company, without beneficial rights to the shares.

4.6 Directors' interest in company shares

For details of the directors' holdings in the issued ordinary shares of Capricorn Group, refer to note 40 to the consolidated annual financial statements.

5. SUBSIDIARIES

For details relating to the subsidiaries of Capricorn Group ("the Group") refer to note 19 to the consolidated annual financial statements.

6. ASSOCIATES

For details relating to the associates of Capricorn Group, refer to note 20 to the consolidated annual financial statements.

7. JOINT ARRANGEMENTS

For details relating to the joint arrangements of Capricorn Group, refer to note 21 to the consolidated annual financial statements.

8. MANAGEMENT BY THIRD PARTY

No business of the company or any part thereof or of a subsidiary has been managed by a third person or a company in which a director has an interest.

9. DIRECTORS AND COMPANY SECRETARY

The Capricorn Group board composition during the year was as follows:

Non-executive		Nationality	Date appointed
J J Swanepoel	Group chairman	Namibian	1 July 1999
J C Brandt		Namibian	5 September 1996
K B Black		Namibian	13 June 2007
G Nakazibwe-Sekandi		Ugandan	30 November 2004
E M Schimming-Chase		Namibian	4 March 2013
D G Fourie		Namibian	29 October 2015
D J Reyneke		South African	19 May 2017
H M Gaomab II		Namibian	20 August 2018
G Menetté		Namibian	23 November 2018
E Solomon		South African	1 November 2019
Executive			
M J Prinsloo	Group CEO	South African	4 March 2013
J J Esterhuyse	Financial director	South African	1 September 2018

DIRECTORS' REPORT (continued)

for the year ended 30 June 2020

9. DIRECTORS AND COMPANY SECRETARY (continued)

At the annual general meeting held on 29 October 2019, Ms Nakazibwe-Sekandi, Adv. Schimming-Chase and Mr Reyneke were unanimously re-elected as directors. All directors appointed since a previous annual general meeting have to be confirmed at the next annual general meeting, and the appointment of Mr Menetté was unanimously confirmed.

The authorised but unissued number of ordinary and preference shares of the company subject to the provisions of the Banking Institutions Act, section 229 of the Companies Act of Namibia and the listing requirements of the Namibian Stock Exchange, are under the control of the directors of Capricorn Group. This authority expires at the forthcoming annual general meeting on 27 October 2020, when this authority can be renewed.

H G von Ludwiger was the company secretary during the year under review. The business and postal addresses of the company secretary are:

Capricorn Group Building
Kasino Street
Windhoek
Namibia

PO Box 15
Windhoek
Namibia

10. DIRECTORS' INTERESTS

The directors' interests are disclosed in the corporate governance report.

11. AUDITOR

PricewaterhouseCoopers will continue in office as auditor, until the next annual general meeting, in accordance with the Companies Act of Namibia.

12. EVENTS SUBSEQUENT TO YEAR-END

(1) On 15 September 2020 a final dividend of 20 cents per ordinary share was declared for the year ended 30 June 2020, payable on 30 October 2020.

(2) On 31 July 2020, the Group signed a Share Purchase Agreement with Access Bank (Zambia) Ltd, a subsidiary of Access Bank Plc, to sell its banking subsidiary in Zamibia, Cavmont Bank Ltd, a wholly owned subsidiary of Cavmont Capital Holdings Zambia Ltd. The transaction is expected to be completed during the fourth quarter of 2020 and is subject to shareholder and regulatory approvals from the Bank of Zambia and local and regional competition authorities.

The Group has committed to provide financial support to Cavmont Bank Ltd until the sale of Cavmont Bank to Access Bank Zambia is completed. This support will be provided in the form of a recapitalisation through the ZMW95 million preference share investment that is expected to be completed during September 2020.

No other matters which are material to the financial affairs of the company and Group have occurred between year-end and the date of approval of the consolidated annual financial statements.

13. GOING CONCERN

The board performed a rigorous assessment of whether the Group and company is a going concern in the light of the prevailing economic conditions and other available information about future risks and uncertainties.

The projections of the Group and company have been prepared, covering its future performance, capital and liquidity for a period of 12 months from the date of approval of these consolidated and separate financial statements, including performing sensitivity analysis.

Impact of COVID-19

These analyses have been updated to include the ongoing developments related to the COVID-19 pandemic. These pandemic scenarios continue to evolve as the effects of the pandemic continue to extend.

For purposes of the sensitivity analysis a severe case scenario has been developed in which the following factors have been considered:

- Macroeconomic variables
- Government's response to manage the spread of the pandemic
- Regulatory response in the banking sector to the impact, including interest rate cuts
- How the customer base is affected and the potential impact on default rates
- The impact of lower economic activity and transaction volumes

The areas of financial performance of Group and company most significantly affected in the severe case scenario are the net interest margin, non-performing loans, credit provisions and non-interest revenue.

The assumptions used in the sensitivity analysis that represent "worst case scenario" are stressed assumptions based on our current understanding of the continued impact of the pandemic. This scenario is considered to be unlikely, however it is difficult to predict the overall outcome and impact of COVID-19.

The Group and company's projections and sensitivity analysis show that the Group and company has sufficient capital, liquidity and positive future performance outlook to continue to be able to operate within the level of its current financing and as a result it is appropriate to prepare the consolidated and separate financial statements on a going concern basis, even when considering more severe impacts of the COVID-19 pandemic.

CONSOLIDATED AND SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

as at 30 June 2020

		Group		Company	
	Notes	2020 N$'000	2019 N$'000	2020 N$'000	2019 N$'000
Interest and similar income		4,622,831	4,547,733	90,607	65,994
Interest and similar expenses		(2,541,932)	(2,513,987)	(145,973)	(126,904)
Net interest income	5.	2,080,899	2,033,746	(55,366)	(60,910)
Credit impairment losses	6.	(304,371)	(123,698)	(170,476)	(15,721)
Net interest income after credit impairment losses		1,776,528	1,910,048	(225,842)	(76,631)
Non-interest income	7.	1,424,711	1,275,253	544,859	994,668
Fee and commission income	7.1	926,914	914,698	–	–
Net trading income	7.2	197,326	106,380	16,688	8,340
Other operating income	7.3	42,777	32,479	528,171	986,328
Net insurance premium income	7.4	152,993	130,050	–	–
Net claims and benefits paid	7.5	(30,719)	(26,541)	–	–
Asset management and administration fees	7.6	135,420	118,187	–	–
Operating income		3,201,239	3,185,301	319,017	918,037
Operating expenses	9.	(1,900,877)	(1,838,732)	(127,949)	(237,412)
Operating profit		1,300,362	1,346,569	191,068	680,625
Share of joint arrangement's results after tax	21.	2,817	3,675	–	–
Share of associates' results after tax	10.	63,711	72,657	–	–
Profit before income tax		1,366,890	1,422,901	191,068	680,625
Income tax expense	11.	(354,795)	(387,750)	(11,659)	8,333
Profit from continuing operations		1,012,095	1,035,151	179,409	688,958
Loss from discontinued operations	44.	(155,683)	(19,852)	–	–
Profit for the period		856,412	1,015,299	179,409	688,958
Other comprehensive income					
Items that may be reclassified to profit or loss					
Change in value of debt instruments at fair value through other comprehensive income		37,877	–	–	–
Income tax expense		(12,121)	–	–	–
Loss on net investments in foreign subsidiary		(19,483)	–	(19,483)	–
Exchange differences on translation of foreign operations		53,888	5,356	–	–
Exchange differences on translation of discontinued operations		9,719	(4,017)	–	–
Items that will not be reclassified to profit or loss					
Change in value of equity instruments at fair value through other comprehensive income		786	7,263	–	–
Income tax expense		(251)	–	–	–
Total comprehensive income for the year		926,827	1,023,901	159,926	688,958

CONSOLIDATED AND SEPARATE STATEMENTS OF COMPREHENSIVE INCOME (continued)

as at 30 June 2020

		Group		Company	
	Notes	2020 N$'000	2019 N$'000	2020 N$'000	2019 N$'000
Profit attributable to:					
Equity holders of the parent entity		760,973	929,889	179,409	688,958
Non-controlling interests		95,439	85,410	–	–
		856,412	1,015,299	179,409	688,958
Total comprehensive income attributable to:					
Equity holders of the parent entity		822,670	937,616	159,926	688,958
Non-controlling interests		104,157	86,285	–	–
		926,827	1,023,901	159,926	688,958
Total comprehensive income attributable to:					
Continuing operations		1,072,791	1,047,770	159,926	688,958
Discontinued operations		(145,964)	(23,869)	–	–
		926,827	1,023,901	159,926	688,958
Earnings per ordinary share in respect of the profit from continuing operations attributable to the equity holders of the parent entity during the year:					
Basic (cents)	12.	178.4	185.5		
Fully diluted (cents)	12.	177.9	185.2		
Earnings per ordinary share in respect of the profit from discontinued operations attributable to the equity holders of the parent entity during the year:					
Basic (cents)	12.	(29.8)	(3.9)		
Fully diluted (cents)	12.	(29.7)	(3.9)		
Earnings per ordinary share for the profit attributable to the equity holders of the parent entity during the year:					
Basic (cents)	12.	148.6	181.6		
Fully diluted (cents)	12.	148.2	181.3		

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

as at 30 June 2020

	Notes	Group 2020 N$'000	Group 2019 N$'000	Company 2020 N$'000	Company 2019 N$'000
ASSETS					
Cash and balances with the central bank	13.	909,117	1,572,616	387,857	663,895
Financial assets at fair value through profit or loss	14.	2,314,333	2,037,188	716,953	428,092
Financial assets at amortised cost	14.	712,757	860,314	294,848	255,650
Financial assets at fair value through other comprehensive income	15.	5,773,633	4,742,725	683,151	476,153
Due from other banks	16.	2,996,527	1,724,043	–	–
Loans and advances to customers	17.	40,078,622	38,049,583	–	–
Other assets	18.	398,656	554,420	56,310	165,209
Current tax asset		110,404	109,549	3,703	2,717
Investment in subsidiaries	19.	–	–	1,418,763	1,411,348
Investment in associates	20.	581,800	348,716	431,195	198,932
Interest in joint arrangement	21.	–	11,016	–	–
Intangible assets	22.	287,451	275,839	–	–
Property and equipment	23.	602,494	284,444	–	–
Deferred tax asset	29.	54,938	107,502	10,717	22,376
Assets held for sale	44.	1,517,394	–	–	–
Total assets		56,338,126	50,677,955	4,003,497	3,624,372
LIABILITIES					
Due to other banks	24.	969,143	245,703	–	–
Other borrowings	25.	861,502	996,372	172,601	141,726
Debt securities in issue	26.	5,642,291	5,670,974	2,286,355	1,769,729
Deposits	27.	39,323,264	36,984,725	–	–
Other liabilities	28.	1,297,597	605,119	57,086	44,647
Current tax liability		2,256	2,052	–	–
Deferred tax liability	29.	192	–	–	–
Post-employment benefits	30.	14,929	12,232	1,149	–
Liabilities held for sale	44.	1,496,888	–	–	–
Total liabilities		49,608,062	44,517,177	2,517,191	1,956,102
EQUITY					
Share capital and premium	31.	718,078	720,302	760,667	765,507
Non-distributable reserves	34.	34,617	85,954	(19,483)	–
Distributable reserves	35.	5,555,410	5,009,140	745,122	902,763
		6,308,105	5,815,396	1,486,306	1,668,270
Non-controlling interests in equity		421,959	345,382	–	–
Total shareholders' equity		6,730,064	6,160,778	1,486,306	1,668,270
Total equity and liabilities		56,338,126	50,677,955	4,003,497	3,624,372

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2020

			Non-distributable reserves			Distributable reserves						
	Notes	Share capital and premium N$'000	Insurance fund reserve N$'000	Credit risk reserve N$'000	NIIFSR*** N$'000	SBCR* N$'000	Fair value reserve N$'000	General banking reserve N$'000	FCTR** N$'000	Retained earnings N$'000	Non-controlling interests N$'000	Total equity N$'000
GROUP												
Balance at 1 July 2018		724,507	53,742	215,911	–	16,847	129,811	3,814,879	4,536	654,458	276,499	5,891,190
Credit risk reserve transfer to retained earnings – IFRS 9		–	–	(194,536)	–	–	–	–	–	194,536	–	–
IFRS 9 transitional adjustment – impairment		–	–	–	–	–	–	–	–	(322,274)	–	(322,274)
IFRS 9 transitional adjustment – effective interest rate		–	–	–	–	–	–	–	–	(108,209)	–	(108,209)
Adjusted balance at the beginning of the year		724,507	53,742	21,375	–	16,847	129,811	3,814,879	4,536	418,511	276,499	5,460,707
Movement in treasury shares		(9,633)	–	–	–	–	–	–	–	–	–	(9,633)
Total comprehensive income for the year		–	–	–	–	–	7,263	–	464	929,889	86,285	1,023,901
Profit for the year		–	–	–	–	–	–	–	–	929,889	85,410	1,015,299
Other comprehensive income		–	–	–	–	–	7,263	–	464	–	875	8,602
Share-based payment charges	35.	–	–	–	–	11,802	–	–	–	–	–	11,802
Vesting of shares		5,428	–	–	–	(5,428)	–	–	–	–	–	–
Profit on sale of treasury shares		–	–	–	–	–	–	–	–	(1,042)	–	(1,042)
Transfer between reserves		–	(2,617)	13,454	–	–	–	28,918	–	(39,755)	–	–
Reclassification to retained earnings		–	–	–	–	–	(136,379)	–	–	136,379	–	–
Dividends	36.	–	–	–	–	–	–	–	–	(307,555)	(17,402)	(324,957)
Balance at 30 June 2019		720,302	51,125	34,829	–	23,221	695	3,843,797	5,000	1,136,427	345,382	6,160,778
Balance at 1 July 2019		**720,302**	**51,125**	**34,829**	**–**	**23,221**	**695**	**3,843,797**	**5,000**	**1,136,427**	**345,382**	**6,160,778**
Movement in treasury shares		**(8,720)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(8,720)**
Total comprehensive income for the year		**–**	**–**	**–**	**(19,483)**	**–**	**26,291**	**–**	**54,889**	**760,973**	**104,157**	**926,827**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**760,973**	**95,439**	**856,412**
Other comprehensive income		**–**	**–**	**–**	**(19,483)**	**–**	**26,291**	**–**	**54,889**	**–**	**8,718**	**70,415**
Share-based payment charges	35.	**–**	**–**	**–**	**–**	**12,480**	**–**	**–**	**–**	**–**	**–**	**12,480**
Vesting of shares		**6,496**	**–**	**–**	**–**	**(6,496)**	**–**	**–**	**–**	**–**	**–**	**–**
Profit on sale of treasury shares		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1 917**	**–**	**1,917**
Transfer between reserves		**–**	**2,975**	**(34,829)**	**–**	**–**	**(25,506)**	**2,296**	**–**	**55,064**	**–**	**–**
Change in ownership interest in subsidiary		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,436**	**(2,436)**	**–**
Transfer of FCTR		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2**	**–**	**(2)**	**–**
Dividends	36.	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(338,076)**	**(25,142)**	**(363,218)**
Balance at 30 June 2020		**718,078**	**54,100**	**–**	**(19,483)**	**29,205**	**1,480**	**3,846,093**	**59,891**	**1,618,741**	**421,959**	**6,730,064**
Notes		*31.*	*34.2*	*34.1*	*34.3*	*35.5*	*35.1*	*35.2*	*35.3*	*35.4*		

* *Share-based compensation reserve ("SBCR")*
** *Foreign currency translation reserve ("FCTR")*
*** *Net investment in foreign subsidiary reserve ("NIIFSR")*

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY (continued)

for the year ended 30 June 2020

			Non-distributable reserves			Distributable reserves						
	Notes	Share capital and premium N$'000	Insurance fund reserve N$'000	Credit risk reserve N$'000	NIIFSR*** N$'000	SBCR* N$'000	Fair value reserve N$'000	General banking reserve N$'000	FCTR** N$'000	Retained earnings N$'000	Non-controlling interests N$'000	Total equity N$'000
COMPANY												
Balance at 1 July 2018		769,933	–	–	–	10,640	–	–	–	526,966	–	1,307,539
IFRS 9 transitional adjustment		–	–	–	–	–	–	–	–	(16,572)		(16,572)
Adjusted balance at the beginning of the year		769,933	–	–	–	10,640	–	–	–	510,394	–	1,290,967
Movement in treasury shares		(5,225)	–	–	–	–	–	–	–	–	–	(5,225)
Share-based payment charges	35.	–	–	–	–	5,081	–	–	–	–	–	5,081
Vesting of shares		799	–	–	–	(799)	–	–	–	–	–	–
Total comprehensive income for the year		–	–	–	–	–	–	–	–	688,958	–	688,958
Dividends	36.	–	–	–	–	–	–	–	–	(311,511)	–	(311,511)
Balance at 30 June 2019		765,507	–	–	–	14,922	–	–	–	887,841	–	1,668,270
Balance at 1 July 2019		**765,507**	**–**	**–**	**–**	**14,922**	**–**	**–**	**–**	**887,841**	**–**	**1,668,270**
Movement in treasury shares		**(6,060)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6,060)**
Share-based payment charges	35.	**–**	**–**	**–**	**–**	**6,832**	**–**	**–**	**–**	**–**	**–**	**6,832**
Vesting of shares		**1,220**	**–**	**–**	**–**	**(1,220)**	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the year		**–**	**–**	**–**	**(19,483)**	**–**	**–**	**–**	**–**	**179,409**	**–**	**159,926**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**179,409**		**179,409**
Other comprehensive income		**–**	**–**	**–**	**(19,483)**	**–**	**–**	**–**	**–**	**–**		**(19,483)**
Dividends	36.	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(342,662)**	**–**	**(342,662)**
Balance at 30 June 2020		**760,667**	**–**	**–**	**(19,483)**	**20,534**	**–**	**–**	**–**	**724,588**	**–**	**1,486,306**
Notes		*31.*			*34.3*	*35.5*				*35.4*		

* *Share-based compensation reserve ("SBCR")*
** *Foreign currency translation reserve ("FCTR")*
*** *Net investment in foreign subsidiary reserve ("NIIFSR")*

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

for the year ended 30 June 2020

		Group		Company	
	Notes	2020 N$'000	2019 N$'000	2020 N$'000	2019 N$'000
Cash flows from operating activities					
Cash receipts from customers	37.1	**6,129,546**	5,723,523	**90,352**	59,882
Cash paid to customers, suppliers and employees	37.2	**(4,189,822)**	(4,122,840)	**(284,242)**	(236,656)
Cash generated from/(utilised in) operations	37.3	**1,939,724**	1,600,683	**(193,890)**	(176,774)
(Increase)/decrease in operating assets					
Financial assets at fair value		**(903,231)**	(620,179)	**(161,154)**	(88,681)
Financial assets at amortised cost		**383,950**	4,061	**(177,385)**	85,126
Loans and advances to customers and central bank mandatory reserve		**(1,467,619)**	(2,615,189)	**–**	–
Other assets		**243,505**	62,914	**108,226**	(43,251)
Increase/(decrease) in operating liabilities					
Deposits from customers		**1,255,238**	2,963,440	**–**	–
Other liabilities		**481,478**	(361,468)	**(4,821)**	(172,580)
Net cash generated from/(utilised in) operations		**1,933,045**	1,034,262	**(429,024)**	(396,160)
Dividends received		**97,350**	90,703	**463,758**	931,664
Other interest received		**891**	702	**29,433**	28,249
Income taxes paid	37.4	**(353,500)**	(473,804)	**–**	–
Net cash generated from operating activities		**1,677,786**	651,863	**64,167**	563,753
Cash flows from investing activities					
Additions to property and equipment	23.	**(103,005)**	(76,159)	**–**	–
Proceeds on sale of property and equipment	37.3	**112**	1,229	**–**	–
Additions to intangible assets	22.	**(70,668)**	(64,329)	**–**	–
Acquisition of subsidiary	37.5	**–**	–	**(7,415)**	–
Acquisition of associate		**(215,003)**	(54,276)	**(215,003)**	(54,276)
Net cash utilised in investing activities		**(388,564)**	(193,535)	**(222,418)**	(54,276)
Cash flows from financing activities					
Treasury shares acquired		**(21,698)**	(36,572)	**(6,060)**	(5,225)
Treasury shares sold		**26,058**	23,607	**–**	–
Proceeds from other borrowings	25.	**146,435**	451,360	**146,435**	396,360
Redemption of other borrowings	25.	**(312,868)**	(770,874)	**(145,595)**	(353,601)
Redemption of debt securities in issue	26.	**(762,182)**	(993,816)	**–**	(100,000)
Proceeds from the issue of debt securities	26.	**700,872**	1,826,392	**500,000**	820,392
Lease payments made	28.	**(89,617)**	–	**–**	–
Dividends paid	36.	**(363,218)**	(324,957)	**(342,662)**	(311,511)
Net cash (utilised in)/generated from financing activities		**(676,218)**	175,140	**152,118**	446,415
Net increase/(decrease) in cash and cash equivalents from continuing operations		**613,004**	633,468	**(6,133)**	955,892
Net increase/(decrease) in cash and cash equivalents from discontinued operations	44.	**(70,388)**	(66,491)	**–**	–
Cash and cash equivalents at the beginning of the year		**5,791,650**	5,201,402	**1,091,987**	136,095
Effects of exchange rate changes on cash and cash equivalents		**(56,449)**	23,271	**18,956**	–
Cash and cash equivalents at the end of the year	39.	**6,277,817**	5,791,650	**1,104,810**	1,091,987

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2020

1. BASIS OF PRESENTATION

The consolidated annual financial statements of Capricorn Group ("the Group" or "the company") for the year ended 30 June 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), interpretations issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee ("IFRS IC") effective at the time of preparing these statements and in the manner required by the Companies Act of Namibia and the Namibian Stock Exchange. The consolidated annual financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit and loss, financial assets at fair value through other comprehensive income and financial liabilities held at fair value through profit or loss and all derivative contracts.

The preparation of consolidated annual financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated annual financial statements, are disclosed in note 4.

The comparative information presented in the statement of comprehensive, statement of cash flows and the related corresponding notes have been represented to exclude the discontinued operation, which is disclosed separately in note 44.

1.1 Going concern

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current financing. The Group continues to adopt the going concern basis in preparing its consolidated annual financial statements.

1.2 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated annual financial statements are presented in Namibian dollar, which is the functional and presentation currency of the company and the presentation currency of the Group.

1.3 Standards and interpretations issued

1.3.1 Standards and interpretations issued affecting amounts reported and disclosures in the current year

Title of standard	Nature of change	Impact	Mandatory application date/ Date of adoption by Group
IFRS 16 Leases	This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, leases were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 supersedes IAS 17 – 'Leases', IFRIC 4 – 'Determining' whether an Arrangement contains a Lease, SIC 15 – 'Operating Leases – Incentives' and SIC 27 – 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.	The Group elected to apply IFRS 16 retrospectively without restating comparative periods. Comparative figures will be presented in terms of IAS 17. The disclosures relating to the impact of the adoption of IFRS 16 are described in more detail in section 1.3.1 (a).	Mandatory for financial years commencing on or after 1 January 2019. Adoption by the Group: 1 July 2019.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

1. BASIS OF PRESENTATION (continued)

1.3 Standards and interpretations issued (continued)

1.3.1 Standards and interpretations issued affecting amounts reported and disclosures in the current year (continued)

1.3.1 (a) Changes in accounting policy

The Group has adopted IFRS 16 – 'Leases' from 1 July 2019 using the modified retrospective approach. Under this approach the Group has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in IFRS 16. The adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 July 2019. Comparative information continues to be reported under IAS17 and IFRIC 4.

On adoption of IFRS 16, as a lessee, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 7.64 %.

(i) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 July 2019
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying IAS 17 and Interpretation 4 – '*Determining whether an Arrangement contains a Lease*'.

The Group decided to apply recognition exemptions to all short-term leases and leases of low-value assets.

There were no leases classified as finance leases under IAS 17 at the date of initial application, nor did the Group act as a lessor at that date.

		2020 N$'000
(ii)	*Measurement of lease liabilities*	
	Operating lease commitments disclosed as at 30 June 2019	203,549
	Discounted using the lessee's incremental borrowing rate at the date of initial application	(80,783)
	(Less): short-term leases not recognised as a liability	(3,152)
	Add/(less): contracts reassessed as lease contracts	19,691
	Add/(less): adjustments as a result of a different treatment of extension and termination options	254,433
	Add/(less): adjustment relating to changes in the index or rate affecting variable payments	(34,600)
	Lease liability recognised as at 1 July 2019	**359,138**
	Of which are:	
	Current lease liabilities	71,900
	Non-current lease liabilities	287,238
		359,138

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

1. BASIS OF PRESENTATION (continued)

1.3 Standards and interpretations issued (continued)

1.3.1 Standards and interpretations issued affecting amounts reported and disclosures in the current year (continued)

1.3.1 (a) Changes in accounting policy

(iii) Measurement of right-of-use assets

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position as at 30 June 2019.

(iv) Adjustments recognised in the statement of financial position on 1 July 2019:

- Property and equipment* – increased by N$359 million
- Other liabilities* – increased by N$359 million

* *Right-of-use assets and lease liabilities have been disclosed as part of property and equipment and other liabilities respectively on the statement of financial position.*

1.3.1 (b) Change in accounting estimate

During June 2020 the estimated total useful lives of certain items of equipment used were revised. The net effect of the changes in the current financial year was a decrease in depreciation of N$23.0 million.

Assuming the equipment is held until the end of its estimated useful life, this would have the following the effect on profit or loss:

Group	30 June 2021 N$000	30 June 2022 N$000	Total N$000
Depreciation	14,605	8,423	23,028
Income tax	(4,674)	(2,695)	(7,369)
Net effect on profit or loss	9,931	5,728	15,659

1.3.2 Standards and interpretations issued but not yet effective that are expected to be relevant to the Group

Title of standard	Nature of change	Impact	Mandatory application date/Date of adoption by Group
IFRS 17 – 'Insurance Contracts'	The IASB issued IFRS 17 – 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators. Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.	The Group is currently assessing the impact of the new rules.	Mandatory for financial years commencing on or after 1 January 2021. Expected date of adoption by the Group: 1 July 2021.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated annual financial statements, which complies with International Financial Reporting Standards ("IFRS") and the Companies Act of Namibia, are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Consolidation

2.1.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the company, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes directly attributable costs of investment.

2.1.2 Common control transactions

A common control transaction is defined as a business combination in which all of the combining entities are ultimately controlled by the same party, both before and after the business combination, and control is not transitory. Common control transactions fall outside the scope of IFRS 3 – 'Business Combinations', and therefore the Group has elected to apply predecessor accounting in the accounting of these transactions.

The cost of an acquisition of a subsidiary under common control is measured at fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Any costs directly attributable to the acquisition are written off against reserves. On acquisition, the carrying values of assets and liabilities are not restated to fair value. The acquirer incorporates assets and liabilities at their precombination carrying amounts at the highest level of consolidation prior to transfer.

Any excess or deficit of the purchase price over the precombination recorded ultimate holding company's net asset value of the subsidiary is adjusted directly to equity. Any differences to values of the subsidiary's underlying assets and liabilities compared with those presented by the ultimate holding company and adjustments to achieve harmonisation of accounting policies will be adjusted in the records of the acquired company prior to consolidation.

In common control transactions, the Group has elected to incorporate the acquired entity's results from the date of the business combination. As a consequence, comparative information is not restated. The principles of when control arises are the same as those for interests in subsidiaries, where purchase price accounting is applied.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Consolidation (continued)

2.1.3 Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between the fair value of any consideration paid and the relevant shares acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Interests in the equity of subsidiaries not attributable to the parent are reported in consolidated equity as non-controlling interest. Profits or losses attributable to non-controlling interests are reported in the consolidated statement of comprehensive income as profit or loss attributable to non-controlling interests.

2.1.4 Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in the carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.1.5 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in profit or loss and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines, at each reporting date, whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of associates' results' in profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the consolidated annual financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in profit or loss.

Investments in associates are measured at cost less impairment in the company's financial statements. For summarised financial information on the Group's associates accounted for on the equity method, refer to note 20.

When the Group increases its stake in an associate it applies the 'cost-of-each-purchase' method. Under this method the cost of an associate acquired in stages is measured as the sum of the consideration paid for each purchase plus a share of the investee's profits and other equity movements. Any acquisition-related costs are treated as part of the investment in the associate.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Consolidation (continued)

2.1.6 Joint arrangements

Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Refer to note 21 for the Group's joint arrangements. Joint arrangements are accounted for using the equity method.

Under the equity method of accounting, interests in joint arrangements are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint arrangement equals or exceeds its interests in the joint arrangement (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint arrangement), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint arrangement.

Unrealised gains on transactions between the Group and its joint arrangement are eliminated to the extent of the Group's interest in the joint arrangement. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint arrangement have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in joint arrangements are measured at cost less impairment in the company's financial statements.

2.2 Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated annual financial statements are presented in Namibian dollar ("N$"), which is the Group's presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss under trading income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

2.3 Financial instruments

2.3.1 Measurement methods

Amortised cost and effective interest

The amortised cost is the at which the financial assets or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider the expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

The carrying value of loans and advances to customers is based on the calculation of the effective interest rate ("EIR"). This EIR is used in the IFRS 9 expected credit loss model for calculating provisions and to amortise any unearned loan origination fees over the contractual life of loans and advances.

The loan repayment calculation is based on the contractual rate, term, and capital amount including the loan origination fee. This adjusted instalment including the loan origination fee is used to determine the effective interest rate of the loan. The carrying value of loans and advances to customers is calculated using this effective interest rate.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial instruments (continued)

2.3.1 Measurement methods (continued)

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets.

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a part to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance ("ECL") is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference immediately when the fair value is based on quoted price in an active market for an identical asset of liability (i.e. a level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss. In the event that fair value is not based on level 1 inputs, the fair value adjustment is deferred. The deferral is then amortised over the life of the instrument or realised when settled.

Financial assets that have subsequently become credit-impaired (or "stage 3"), interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

2.3.2 Financial assets

(i) Classification and subsequent measurement

The Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss ("FVPL")
- Fair value through other comprehensive income ("FVOCI")
- Amortised cost

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:

(i) The Group's business model for managing the asset

(ii) The cash flow characteristics of the asset

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial instruments (continued)

2.3.2 Measurement methods (continued)

(i) Classification and subsequent measurement (continued)

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance at recognition date. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- Fair value through profit or loss: assets that do not meet the criteria for amortised cost are measured at fair value through profit or loss. A gain or loss on a debt instruments that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented within the 'Non-operating income' in the period in which it arises. The Group may also irrevocably designate financial assets at fair value through profit or loss if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- Fair value through other comprehensive income ("FVOCI"): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest that are not designated at FVPL are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains or losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Non-operating income'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows arising from the sale of assets. If neither is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flow represent solely payments of principal and interest (the "SPPI test"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt instruments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Group's management has elected, at initial recognition, to irrevocably designate the investment security portfolio at fair value through other comprehensive income. These investments are held for purposes other than to generate investment returns. Fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

All other equity instruments are recognised at fair value through profit and loss.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial instruments (continued)

2.3.2 Measurement methods (continued)

(ii) Impairment

The Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instrument assets carried at amortised cost and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by using the transition matrix methodology
- The time value of money
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions

Note 3.2.2 provides more detail of how the expected credit loss allowance is measured.

(iii) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. A substantial modification of the contractual cash flows results in the Group derecognising the original financial asset and recognising a 'new asset' at fair value and recalculating a new effective interest rate for the asset. If modified contractual cash flows differs by more than 10 % from original contractual cash flows, the modification will be deemed to be substantial. The date of renegotiation is consequently considered to the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and whether (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

Collateral furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price and the criteria for derecognition are therefore not met.

2.3.3 Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for financial liabilities at fair value through profit or loss: this classification is applied to derivatives. Financial guarantee contracts and loan commitments (see note 2.13).

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Intangible assets

2.4.1 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree. Goodwill on acquisition of subsidiaries is included in "intangible assets" and carried at cost less accumulated impairment losses. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of the value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating-units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

2.4.2 Computer software and development costs

Intangible assets are initially recognised at cost. Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. Intangible assets in development are carried at cost.

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:
- it is technically feasible to complete the software product so that it will be available for use
- management intends to complete the software product and use or sell it
- there is an ability to use or sell the software product
- it can be demonstrated how the software product will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available
- the expenditure attributable to the software product during its development can be reliably measured

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period.

The cost of a separately acquired intangible asset comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and any directly attributable cost of preparing the asset for its intended use. Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives as follows:

Purchased software	3 years
Internally generated software	5–7 years

2.5 Property and equipment

Land and buildings mainly comprise branches and offices. All property and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Motor vehicles	5 years
Furniture, fittings and other office equipment	6.67–16 years
Computer and other equipment	3–11.74 years
Buildings	24–50 years

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in profit or loss.

Investment properties held by Group companies and which are occupied by other Group companies are recognised as property and equipment in the consolidated annual financial statements.

2.6 Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed property is included under other assets as inventory as it is held for sale in the ordinary course of business, at the lower of cost or net realisable value, and is derecognised when the asset is sold to a third party.

2.7 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

2.8 Leases

2.8.1 IFRS 16 – 'Leases' – Applicable to current period figures

This policy is applied to contracts entered into, or changed, on or after 1 July 2019.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- The contract involves the use of an identified asset.
- The Group has the right to obtain substantially all of the economic benefits associated with the use of the asset throughout the period of use.
- The Group has the right to direct or use the asset. The Group has the right to direct or use the asset when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lessee accounting

The Group leases various offices, branches and houses. Rental contracts are typically made for fixed periods of 5 to 10 years, but may have extension options.

Depreciation on right of use assets is calculated using the straight-line method to allocate their cost over their estimated useful lives as follows:

Buildings	5–10 years
Leased lines	2 years

Until the 2019 financial year, leases of property and equipment were classified as either finance or operating leases based on the requirements of IAS 17. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group as required by IFRS 16.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Right-of-use assets are presented as part of 'property and equipment', while lease liabilities are presented as part of 'other liabilities' on the statement of financial position.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Leases (continued)

2.8.1 IFRS 16 – 'Leases' – Applicable to current period figures (continued)

Initial recognition

At the commencement date a lessee recognises a right-of-use asset and a lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payments that are based on an index rate or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by the Group under residual value guarantees
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of the lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs
- An estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located, less any lease incentives received

Subsequent measurement

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. They are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. Depreciation starts at the commencement date of the lease.

The lease liability is measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be repayable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in any way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Discount rate

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. Generally, the Group uses the lessee's incremental borrowing rate as the discount rate.

Short-term and leases of low-value assets

Payments associated with short-term leases of equipment and vehicles and all leases of low value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low value assets comprise IT equipment and small items of office furniture.

Lessor accounting

The Group is not part of lease contracts where it is the lessor.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Leases (continued)

IAS 17 – Applicable to comparative period figures

2.8.2 A Group company is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The leases entered into by the Group are primarily operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.8.3 A Group company is the lessor

Leases of property and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in payables. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.9 Cash and cash equivalents

Cash and cash equivalents are stated at cost which approximates fair value due to the short-term nature of these instruments.

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, balances with less than three months' maturity from the reporting date, including cash and non-restricted balances with the central bank, treasury bills and other eligible bills, placements with other banks, short-term government securities, money market investments and short-term borrowings from other banks. In the statement of financial position, bank overdrafts are shown within 'due to other banks' as liabilities.

2.10 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in provision due to passage of time is recognised as an interest expense.

2.11 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance (calculated as described in note 3.2.2)
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in note 3.2.2). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid leave, sick leave and bonuses) are recognised in the period in which the service is rendered and are not discounted.

2.12.1 Pension obligations

The Group operates a defined contribution plan. The plan is generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as assets to the extent that a cash refund or a reduction in the future payments is available. The Group provides no other post-retirement benefits to their retirees.

2.12.2 Severance pay provision

In terms of the Labour Act of Namibia, the Group is required to make payments (or provide other benefits) to employees when it terminates their employment. The implication of this requirement is that severance pay has to be paid to all employees when the employee:

(i) Is dismissed (except if due to misconduct or poor performance)
(ii) Dies while employed
(iii) Retires upon reaching the age of 65

The Group therefore has an obligation, more specifically a defined benefit, in terms of IAS 19 'Employee benefits'. The benefit is unfunded and is valued using the projected unit credit method as prescribed by IAS 19 'Employee benefits'. Refer to note 30 for assumptions made in the determination of the Group's liability with respect to severance pay.

2.12.3 Leave pay

Employee benefits in the form of annual leave entitlements are provided for when they accrue to employees with reference to services rendered up to the reporting date.

2.12.4 Performance bonuses

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit before tax after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.13 Share-based payments

The Group operates two equity-settled share-based compensation plans: 1) a share appreciation rights plan; and 2) a conditional share plan, under which the entities within the Group receive services from employees as consideration for equity instruments (shares) of Capricorn Group Ltd (refer to the directors' report and remuneration report (unaudited) for more details of each plan). Equity-settled share purchase schemes are valued at grant date. The fair value of the employee services received in exchange for the grant of the shares and share options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the shares and share options granted:

- Including any market performance conditions (e.g. an entity's share price)
- Excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining an employee of the entity over a specified time period)
- Including the impact of any non-vesting conditions (e.g. the requirement for employees to save)

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Current and deferred income tax

The tax expense for the period comprises of current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.14.1 Deferred income tax

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated annual financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts and tax losses carried forward and, in relation to acquisitions, from the difference between the fair values of the net assets acquired and their tax base.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liabilities, where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities, where there is an intention to settle the balances on a net basis.

Deferred tax related to fair value remeasurement of available-for-sale investments and cash flow hedges, which are recognised in other comprehensive income, is also recognised in other comprehensive income and is subsequently recognised in profit or loss together with the deferred gain or loss.

2.14.2 Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Revenue recognition

Revenue from customers is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail, microlending and corporate banking services	The Group provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Group sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Group.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Asset management service	The Group provides asset management services. Fees for asset management services are calculated based on a fixed percentage of the value of assets managed and deducted from the customer's account balance on a monthly basis.	Revenue from asset management services is recognised over time as the services are provided.

2.15.1 Net trading income

Net trading income comprises all gains and losses from changes in the fair value of financial assets and liabilities held-for-trading as well as foreign exchange gains and losses arising from instruments held for trading.

2.15.2 Interest income and expenses

Interest income and expenses are recognised in profit or loss for all instruments measured at amortised cost using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (e.g. prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income and dividend income on financial assets at fair value through other comprehensive income are included in 'net interest income' or 'dividend income', respectively.

When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Revenue recognition (continued)

2.15.3 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionment basis. Asset management fees related to investment funds are recognised over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

2.15.4 Other income

Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreements. Dividend income is recognised when the right to receive payment is established.

Other income from the sale of residential units comprises the fair value of the consideration received or receivable, shown net of value-added tax, returns, rebates and discounts. Income is recognised on a stage-of-completion basis. Other income from consultations and valuations are recognised as services are delivered.

2.16 Share capital

2.16.1 Share issue

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

Incremental costs directly attributable to the issue of new ordinary shares or options, or to the acquisition of a business, are shown in equity as a deduction, net of tax, from the proceeds.

2.16.2 Treasury shares

Where any Group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

Shares held by the employee share trusts and other Group companies, which form part of the consolidated Group, are deducted from total shareholders' equity until the shares are sold.

2.17 Inventory (residential units)

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity), also including borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventory include the transfer from equity of any gains/losses on qualifying cash flow hedges for purchases of raw materials.

2.18 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the consolidated annual financial statements in the period in which the dividends are declared by the board of directors.

Dividends for the year that are declared after the reporting date are dealt with in the events subsequent to year-end note in the directors' report.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Fiduciary activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these consolidated annual financial statements, as they are not assets of the Group.

2.20 Operating segments

The Group considers its banking operations in Namibia and Botswana as two operating segments; the other major operating segment is the microlending activities in Namibia. Other components include property development, asset management, unit trust management and the Zambian banking operations. However these components each contribute less than 10 % to the Group revenue, assets and profit for the year. Therefore, the Group has no significant components other than banking in Namibia and Botswana. This is in a manner consistent with the internal reporting provided to the chief operating decision-maker, identified as the chief executive officer of the Group. The chief operating decision-maker is the person that allocates resources to and assesses the performance of the operating segment(s) of an entity.

In assessing the performance of the banking operations, the Group chief executive officer reviews the various aggregated revenue streams, the total costs and the assets and liabilities related to the banking activities, which have been disclosed in the various notes to the consolidated annual financial statements.

2.21 Insurance contracts

2.21.1 Policyholder insurance contracts

Policyholder insurance contracts are classified in accordance with IFRS 4.

The Entrepo group is licensed as a long-term insurer in Namibia in accordance with the Long-term Insurance Act (the Act) of 1998, as amended. The Act requires the determination of assets, liabilities and capital requirements for statutory purposes in accordance with generally accepted actuarial standards and principles.

In terms of IFRS 4, defined insurance liabilities are allowed to be measured under existing local practice. The Group has adopted the Namibian Standards of Actuarial Practice ("NSAP") issued by the Society of Actuaries of Namibia ("SAN") to determine the liability in respect of insurance contracts. The following NSAP is relevant to the determination of policyholder liabilities:

- NSAP 104: Calculation of the Value of the Assets, Liabilities and Solvency Capital Requirement of Long-term Insurers

Where applicable, the NSAPs are referred to in the accounting policies and notes to the financial statements.

Classification of insurance contracts

The Group issued contracts which transfer insurance risk. The Group classifies these contracts as insurance contracts.

Insurance contracts

Insurance contracts are those contracts under which the Group (as insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects them. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10 % more than the benefits payable if the insured event did not occur.

Profit and loss impact of movements

Adjustments to the amounts of policyholder liabilities for policies established in prior years are reflected in the financial statements for the period in which the adjustments are made and disclosed separately if material.

Outstanding insurance contract claims

Provision is made on a prudent basis for the estimated final costs of:

- Claims notified but not settled at year-end, using the best information available at that time. The estimate includes an amount of the direct claims expenses and assessment charges arising from the settlement of claims.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Insurance contracts (continued)

2.21.2 Gross premiums

Gross premiums written comprise the premiums on contracts entered into during the year. Includes all premiums for the period of risk covered by the policy, regardless of whether or not these are due for payment in the accounting period.

2.21.3 Claims paid

Claims paid are recognised in the financial statements when the liability arises and are expensed accordingly.

2.22 Interest capitalised on stage 3 impaired loans and advances

IFRS 9 requires that interest income for loans and advances classified as Stage 3 be calculated on the net carrying amount, this results in a portion of contractual interest being suspended. IFRS 9 requires that this suspended contractual interest be presented as part of the loans and advances' gross carrying amount. The Group has applied this requirement by presenting interest capitalised on stage 3 loans and advances as a separate reconciling item when calculating the loans and advances' total value. Interest capitalised on stage 3 loans and advances, therefore, does not impact the net carrying amount of the loans and advances as presented on the statement of financial position. However, this change in presentation has resulted in an increased gross carrying amount of the loans and advances when compared to IAS 39.

2.23 Discontinued operations

Disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits and financial assets, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the or disposal group to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT

Any business that requires a return on capital investment is exposed to financial risks. Managing these risks continues to play a pivotal role within the Group to ensure an appropriate balance is reached between risks and returns. The board of directors is ultimately responsible to manage risks that may either have a positive or negative impact on its financial performance, and which may ultimately have an adverse effect on the continued operations of the Group. However, it is the responsibility of management to identify risks, whether real or anticipated, within their business units, and take appropriate actions.

Management's approach to risk management is to ensure all significant risks are identified and managed, and the returns are balanced with the risks taken. Compliance with a set of comprehensive risk management policies is an integral part of the Group's day-to-day activities and systems of internal controls have been implemented to prevent and detect risks.

The key principles forming the foundation of the Group's risk management process include:

- Adoption of a risk management framework which applies to all business units and risk types
- Risk assessment, measurement, monitoring and reporting
- Independent reviews and assessment
- Risk governance processes

The following subcommittees have been formed to assist the board audit, risk and compliance committee (BARC) to manage risks:

Board credit committee (BCC) and board lending committee (BLC)

One of the Group's primary activities is lending to retail and commercial borrowers. The Group accepts deposits from customers or borrows money from investors at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in quality assets. The BCC and BLC are tasked to ensure this objective is achieved through the sanctioning of credit and thereby ensuring credit exposures remain within an acceptable range of credit standing. Such exposures involve not just loans and advances reflected on the statement of financial position, but also guarantees and other commitments such as letters of credit.

Asset and liability committee (ALCO)

The primary responsibility of the ALCO is the management of market and liquidity risks within set risk capacity, appetite and tolerance thresholds while at the same time optimising the Group's profitability and capital position. The ALCO reviews the macroeconomic environment, as well as historical financial and strategic performance as inputs in a strategy development process, which is supported by simulations and forecasting. The Group trades in financial instruments where it takes positions in traded instruments, including derivatives, to take advantage of, and hedge against adverse, short-term market movements in bonds and in foreign currency, interest rate and commodity prices. Among other responsibilities, ALCO is tasked to monitor the risks associated with these activities.

Risk management includes the setting of trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. In addition, with the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

The ALCO also carries the primary responsibility of monitoring the Group's liquidity position, as well as formulating the funding strategy. The interest rate subcommittee reviews the economic environment and recommends interest rate views to ALCO. ALCO activities are reported to the BARC.

Risk committee

In addition to the mentioned committees, the risk committee, comprising of members of the executive management team and reporting to the BARC, was established. Its primary responsibilities are to:

- Evaluate the risk management model employed by the Group in terms of effectiveness and efficient deployment of resources (i.e. cost versus benefit)
- Discuss and identify gaps and weaknesses in the management information system to enable management to make the correct decisions
- Discuss the findings and recommendations of the Group's risk functions and evaluate whether appropriate action has been taken when necessary
- Enhance general risk awareness within the Group
- Monitor the management of risks to ensure that the Group complies with the Bank of Namibia's guidelines for effective risk management
- Discuss in detail any identified, unidentified and potential risks that are material to the Group

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

Credit risk forum ("CRF")

The purpose of the CRF is to have an oversight of credit risk management in accordance with the board approved credit risk framework, in order to achieve and maintain an acceptable credit risk profile and an adequate risk and control framework.

On portfolio credit risk level, the scope of the CRF includes:

- Portfolio analysis and performance
- Key risk indicators and trends
- Risk adjusted pricing performance on portfolio level
- Discuss and review credit portfolio risk and recommend to the business units risk enhancement
- Product and pricing strategies
- Discuss and review of annual risk appetites and stress testing of the credit portfolio before submission to the risk committee
- Discuss and review collateral and recommend necessary improvements

The CRF facilitates compliance with:

- Basel and other best practices for credit risk management
- Applicable legislative acts
- Bank of Namibia determinations
- Group credit policies

IFRS 9 committee

The IFRS 9 committee is the main forum where specific matters that can cause deterioration in credit risk will be discussed. At this meeting decisions will also be made on the risk associated with the prevailing and forecasted macroeconomic conditions and the impact on specific sectors in the applicable economies.

The IFRS 9 committee is established to make the following decisions at each reporting period in terms of the impairment allowance model utilised by the Group:

1. Assumptions
2. Inputs, including macroeconomic variables
3. Results
4. Movements in sectors/regions
5. Sign-off total impairments for the reporting period

Significant risks to which the Group is exposed are discussed below.

3.1 Analysis of assets and liabilities

The assets/liabilities held for sale have not been included in our financial risk management disclosure. The table below reconciles the financial risk management disclosure to the statement of financial positions:

	2020 N$'000
Total assets as per statement of financial position	56,338,126
Less: assets held for sale	1,517,394
Total assets excluding assets held for sale	**54,820,732**
Total liabilities as per statement of financial position	49,608,062
Less: liabilities held for sale	1,496,888
Total liabilities excluding liabilities held for sale	**48,111,174**

Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies on pages 129 to 144 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Analysis of assets and liabilities (continued)

The following table analyses the financial assets and liabilities in the statement of financial position per category of financial instrument to which they are assigned and therefore measured. The table includes non-financial assets and liabilities to reconcile to the statement of financial position excluding assets/liabilities held for sale:

Group	2020 Financial assets/ liabilities at fair value through profit or loss N$'000	Financial assets/ liabilities at amortised cost N$'000	Financial assets at fair value through other compre-hensive income N$'000	Non-financial assets/ liabilities N$'000	Total N$'000
ASSETS					
Cash and balances with the central bank	–	909,117	–	–	909,117
Financial assets at fair value through profit or loss	2,314,333	–	–	–	2,314,333
Financial assets at amortised cost	–	712,757	–	–	712,757
Financial assets at fair value through other comprehensive income	–	–	5,773,633	–	5,773,633
Due from other banks	–	2,996,527	–	–	2,996,527
Loans and advances to customers	–	40,078,622	–	–	40,078,622
Other assets	–	289,918	–	108,738	398,656
Current tax asset	–	–	–	110,404	110,404
Investment in associates	–	–	–	581,800	581,800
Intangible assets	–	–	–	287,451	287,451
Property and equipment	–	–	–	602,494	602,494
Deferred tax asset	–	–	–	54,938	54,938
Total assets	2,314,333	44,986,941	5,773,633	1,745,825	54,820,732
LIABILITIES					
Due to other banks	–	969,143	–	–	969,143
Other borrowings	–	861,502	–	–	861,502
Debt securities in issue	–	5,642,291	–	–	5,642,291
Deposits	–	39,323,264	–	–	39,323,264
Other liabilities	10,863	1,192,406	–	94,328	1,297,597
Current tax liability	–	–	–	2,256	2,256
Deferred tax liability	–	–	–	192	192
Post-employment benefits	–	–	–	14,929	14,929
Total liabilities	10,863	47,988,606	–	111,705	48,111,174

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Analysis of assets and liabilities (continued)

	2020				
Company	**Financial assets/ liabilities at fair value through profit or loss N$'000**	**Financial assets/ liabilities at amortised cost N$'000**	**Financial assets at fair value through other comprehensive income N$'000**	**Non-financial assets/ liabilities N$'000**	**Total N$'000**
ASSETS					
Cash and bank balances	–	387,857	–	–	387,857
Financial assets at fair value through profit or loss	716,953	–	–	–	716,953
Financial assets at amortised cost	–	294,848	–	–	294,848
Financial assets at fair value through other comprehensive income	–	–	683,151	–	683,151
Other assets	–	54,586	–	1,724	56,310
Current tax asset	–	–	–	3,703	3,703
Investment in subsidiaries	–	–	–	1,418,763	1,418,763
Investment in associates	–	–	–	431,195	431,195
Deferred tax	–	–	–	10,717	10,717
Total assets	716,953	737,291	683,151	1,866,102	4,003,497
LIABILITIES					
Other borrowings	–	172,601	–	–	172,601
Debt securities in issue	–	2,286,355	–	–	2,286,355
Other liabilities	–	52,333	–	4,753	57,086
Post-employment benefits	–	–	–	1,149	1,149
Total liabilities	–	2,511,289	–	5,902	2,517,191

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Analysis of assets and liabilities (continued)

Group	2019 Financial assets/ liabilities at fair value through profit or loss N$'000	Financial assets/ liabilities at amortised cost N$'000	Financial assets at fair value through other comprehensive income N$'000	Non-financial assets/ liabilities N$'000	Total N$'000
ASSETS					
Cash and balances with the central bank	–	1,572,616	–	–	1,572,616
Financial assets at fair value through profit or loss	2,037,188	–	–	–	2,037,188
Financial assets at amortised cost	–	860,314	–	–	860,314
Financial assets at fair value through other comprehensive income	–	–	4,742,725	–	4,742,725
Due from other banks	–	1,724,043	–	–	1,724,043
Loans and advances to customers	–	38,049,583	–	–	38,049,583
Other assets	357	412,383	–	141,680	554,420
Current tax asset	–	–	–	109,549	109,549
Investment in associates	–	–	–	348,716	348,716
Interest in joint arrangements	–	–	–	11,016	11,016
Intangible assets	–	–	–	275,839	275,839
Property and equipment	–	–	–	284,444	284,444
Deferred tax asset	–	–	–	107,502	107,502
Total assets	2,037,545	42,618,939	4,742,725	1,278,746	50,677,955
LIABILITIES					
Due to other banks	–	245,703	–	–	245,703
Other borrowings	–	996,372	–	–	996,372
Debt securities in issue	–	5,670,974	–	–	5,670,974
Deposits	–	36,984,725	–	–	36,984,725
Other liabilities	5,959	566,532	–	32,628	605,119
Current tax liability	–	–	–	2,052	2,052
Post-employment benefits	–	–	–	12,232	12,232
Total liabilities	5,959	44,464,306	–	46,912	44,517,177

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Analysis of assets and liabilities (continued)

	2019				
Company	**Financial assets/ liabilities at fair value through profit or loss N$'000**	**Financial assets/ liabilities at amortised cost N$'000**	**Financial assets at fair value through other comprehensive income N$'000**	**Non-financial assets/ liabilities N$'000**	**Total N$'000**
ASSETS					
Cash and balances with the central bank	–	663,895	–	–	663,895
Financial assets at fair value through profit or loss	428,092	–	–	–	428,092
Financial assets at amortised cost	–	255,650	–	–	255,650
Financial assets at fair value through other comprehensive income	–	–	476,153	–	476,153
Other assets	–	61,009	–	104,200	165,209
Current tax asset	–	–	–	2,717	2,717
Investment in subsidiaries	–	–	–	1,411,348	1,411,348
Investment in associates	–	–	–	198,932	198,932
Deferred tax asset	–	–	–	22,376	22,376
Total assets	428,092	980,554	476,153	1,739,573	3,624,372
LIABILITIES					
Other borrowings	–	141,726	–	–	141,726
Debt securities in issue	–	1,769,729	–	–	1,769,729
Other liabilities	–	44,162	–	485	44,647
Total liabilities	–	1,955,617	–	485	1,956,102

3.2 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Significant changes in the economy of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the reporting date. Credit risk, together with large exposures, is monitored by the board audit, risk and compliance committee.

In addition to credit risk through a loan, the Group is exposed to counterparty credit risk, which is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Unlike credit exposures to loans, exposures to counterparty credit could result in a positive or negative impact to the financial performance of the Group, depending on the underlying market factors. Such risk is associated primarily with derivative transactions.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3, FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.1 Credit risk measurement

(a) Loans and advances (including loan commitments and guarantees)

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Group has developed statistical models to support the quantification of credit risk. These quantitative models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring the credit risk of loans and advances at a counterparty level, the Group considers three components, namely: (i) the 'probability of default' ("PD") by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Group derives the 'exposure at default' ("EAD"); and (iii) the expected loss on the defaulted obligations the 'loss given default' ("LGD"). This is similar to the approach used for the purposes of measuring Expected Credit Loss ("ECL") under IFRS 9 (note 3.2.2).

These credit risk measurements, which reflect expected loss (the 'expected loss model'), are required by the Basel committee on banking regulations and the supervisory practices (the Basel committee) and are embedded in the Group's daily operational management.

(i) Probability of default ("PD")

The probability of default is an indication of the probability that a given loan will default. Under Basel II and IFRS 9 the elements that make up a loss are defined as economic loss and will include direct and indirect costs associated with collecting on the exposure such as allocations of internal overheads and other non-cash costs. The PD in Basel II and IFRS 9 is calculated using historical data of defaults.

(ii) Exposure at default ("EAD")

The exposure at default under Basel II and IFRS 9 will take into account an expectation of future draw-downs until the default event has occurred by utilising loan run down for amortizing products and a credit conversion factor for non-amortizing products. For example, for a loan this is the face value at the default date. For a commitment, the Group includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

(iii) Loss given default ("LGD")

Loss given default or loss severity represents the Group's expectation of the extent of loss on a claim should default occur (1 – recovery rate). It is expressed as percentage loss per unit of exposure. It typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. The measurement of exposure at default and loss given default is based on the risk parameters standard under Basel II and IFRS 9.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.1 Credit risk measurement (continued)

(b) Financial assets measured at amortised cost

Assets in this category mainly relate to investments in financial instruments that have an external credit rating. Implied probability of defaults have been benchmarked against published estimates by external credit rating agencies. LGD's were benchmarked against Basel best practice. The implied PD's and LGD's are used to calculate expected credit losses for these assets.

Credit risk grading

The Group uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Group uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of is fed into the rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers.

The credit grades are calibrated such that the risk of default increases exponentially at each risk grade.

The following are additional considerations for each type of portfolio held by the Group:

Retail

After the date of initial recognition, for retail business, the payment behavior of the borrower is monitored on a periodic basis to develop a behavioural score. Any other known information about the borrower which impacts their creditworthiness – such as unemployment and previous delinquency history – is also incorporated into the behavioural score. This score is mapped to a PD.

Corporate

For wholesale business, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information/credit assessments into the credit systems on an ongoing basis. In addition, the relationship manager will also update information about the creditworthiness of the borrower every year from sources such as public financial statements. This will determine the updated internal credit rating and PD.

The Group's rating method comprises 9 rating levels for instruments not in default (CG1 to CG9). The rating methods are subject to an annual validation and recalibration so that they reflect the latest projections in the light of all actually observed defaults.

Rating	Meaning	Implied PD
CG1	Virtually no risk	**2%**
CG2	Low risk	**2%**
CG3	Moderate risk	**4%**
CG4	Acceptable risk	**6%**
CG5	Borderline	**8%**
CG6	Special Mention	**22%**
CG7	Substandard	**69%**
CG8	Doubtful	**85%**
CG9	Loss	**95%**

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.2 Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired. Please refer to note 3.2.2.1 for a description of how the Group determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 3.2.2.2 for a description of how the Group defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 3.2.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should be carried forward-looking information. Note 3.2.2.4 includes an explanation of how the Group has incorporated this in its ECL models.

Further explanation is also provided of how the Group determines appropriate groupings when ECL is measured on a collective basis (refer to note 3.2.2.5).

The following diagram summarises the impairment requirements under IFRS 9:

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

3.2.2.1 Significant increase in credit risk

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

The credit rating at the reporting date has deteriorated significantly (moved down two rating levels e.g. CG1 to CG3), compared to the credit rating at initial recognition of the account. The thresholds for the significant increase in credit risk is determined by mapping the SICR roll rates to the actual historical arrears roll rates. An account can move back to stage 1 if its credit score improves again.

Qualitative criteria

Accounts are classified on a watch list when there is qualitative information available on the client's credit risk increasing. These accounts are moved over to stage 2.

The qualitative criteria used to determine whether accounts have increased in credit risk include, but is not limited to:

- Repayment ability of clients
- Collateral valuations
- Sector in which the client operates
- Natural events (i.e. drought)
- Debtors not paying across industries

The criteria used to identify SICR are monitored and reviewed periodically for the appropriateness by the independent Credit Risk team. Once the above matters improved sufficiently, an account can be moved back to stage 1.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.2 Expected credit loss measurement (continued)

3.2.2.1 Significant increase in credit risk (continued)

Backstop

A backstop is applied and the financial instruments considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

An account can move back to stage 1 if it is less than 30 days past due.

The Group has not used the low credit risk exemption for any financial instruments in the year ended 30 June 2020. This was also not applied at transition.

3.2.2.2 Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, when it meets one or more of the following criteria:

Qualitative criteria

The borrower is more than 90 days past due on its contractual payments.

Quantitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenants
- It is becoming probable that the borrower will enter bankruptcy

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default ("PD"), Exposure at Default ("EAD") and Loss given Default ("LGD") throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria and it is fully paid up for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions. This is in line with regulatory requirements. When an account has been fully paid up for six months it is moved back to stage 1.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.2 Expected credit loss measurement (continued)

3.2.2.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss ("ECL") is measured on either a 12-month ("12M") or Lifetime basis depending on whether a significant increase in credit has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default, defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation.
- EAD is based on the amount the Group expects to be owed at the time of default, over the next 12 months ("12M EAD") or over the remaining lifetime ("Lifetime EAD"). For a revolving commitment, the Group includes the current drawn balance plus any further amount that is to be expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default ("LGD") represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty. LGD is expressed as a percentage loss per unit of exposure at the time of default ("EAD"). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival. This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of observation throughout the remainder of the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio segment. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortisation products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by the borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type. This is supported by historical analysis of recoveries per portfolio segment, including the discounting of the recoveries to the default date as well as the recovery costs accounted for.

The assumptions underlying the ECL calculation are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.2 Expected credit loss measurement (continued)

3.2.2.4 Forward-looking information incorporated in the ECL models

The measurement of the expected credit loss ("ECL") allowance for financial assets requires the use of significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are required in applying the accounting requirements for measuring ECL, including:

- Determining criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for the measurement of ECL
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL
- Establishing groups of similar financial assets for the purposes of measuring ECL

FRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the bank
- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'

Stage 3

The bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Qualitative criteria

The borrower is more than 90 days past due on its contractual payments.

Quantitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenants
- It is becoming probable that the borrower will enter bankruptcy

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes.

The Group estimates provision for impairments for stage 3 (non-performing loans) on an individual loan basis. Each loan's impairment is calculated as exposure less a discounted value of collateral held.

Stage 1 and 2

The assessment and calculation of ECL incorporates forward-looking information ("FLI"). The forecast of economic variables, regression analysis and expert judgement is applied and confirmed through internal governance structures to apply a forward-looking view for the ECL calculation. With the simultaneous impact of a multiyear recession as well as COVID-19 pandemic on the southern African region, statistical inference needs to be supplemented by qualitative expert judgment and input to ensure reliable and plausible forecasts are achieved. The Group has performed historical analysis and identified key macroeconomic inputs impacting the default rates of the Group's assets and in determining key credit risk ratios and overlays. Historical relationships between macroeconomic data and default rates have been identified as inputs into the FLI model. These relationships are used to project future default rates based on current macroeconomic forecasts. The Group mainly applied forecasted domestic macroeconomic conditions as FLI. Regression modelling techniques were used for this purpose.

The Group applied GDP changes as the main macroeconomic indicator in the FLI modeling process. Changes in monetary interest rates were excluded from the modelling process. As part of COVID-19 stimulus packages, the central banks of Botswana and Namibia reduced interest rates to stimulate GDP growth. The effect of monetary policy rates is therefore encapsulated in the GDP forecasts applied in the modelling process.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.2 Expected credit loss measurement (continued)

3.2.2.4 Forward-looking information incorporated in the ECL models (continued)

The Group applies a 'sensitivity factor' (the rate of change of default rates relative to the average default rate during the PD calibration period) to forecasted GDP growth. The calibration spans from January 2012 to June 2019. PDs were calibrated to historical GDP growth rates on an annual basis using regression modelling. Negative GDP growth is mostly associated with an increase in default rates, while positive GDP growth is associated with a reduction in default rates. The sensitivity factor is used to compute a scalar to the current default rates of each type of loan product that the Group has. The scaler was applied to the current PDs per product type for all stage 1 and stage 2 exposures.

The following table shows the GDP growth assumptions used in calculating the scalar in the forward-looking model:

	Namibia		Botswana	
	2020	**2019**	**2020**	**2019**
Growth in next 12 months	**(6.80%)**	1.70 %	**(6.80%)**	3.90 %
Growth in following 12 months	**3.90%**	3.80 %	**5.40%**	4.50 %

Qualitative factors influencing FLI

Expert judgement was applied to determine factors other than GDP that could influence future default rates. The Group has offered financial relief to clients in the form of restructured exposures as well as deferral of payments for up to three months at a time. All clients to whom relief was offered were assessed on an individual basis. Where the financial relief was deemed sufficient to assist the client in servicing debt again in future, its staging and probability of default remained unchanged. Should the financial relief be considered not to be of a temporary nature, the client is treated as distressed and a higher probability of default is assigned as per the base and FLI ECL models.

Sensitivity analysis

Expected credit losses calculated for stage 1 and 2 after applying the sensitivity factor above was as follows:

	Allowances for credit losses	
Sensitivity analysis	**2020 N$'000**	**2019 N$'000**
Base ECL for stage 1 and 2	**283,479**	254,792
Had the GDP forecast been 10 % better or 10 % worse, the ECL for stage 1 and 2 would be reflected as follows:		
GDP 10 % improvement	**260,589**	250,408
GDP 10 % deterioration	**435,255**	264,401

Significant Increase in credit risk

Even though COVID-19 had a negative impact on all the economies in which the Group operates, it did not impact all industries and all clients equally. For this reason, COVID-19 was not seen as an indicator of SICR for the entire loan book. Clients seeking financial relief were assessed on an individual basis to determine if an indicator of SICR was present.

For the sensitivity analysis on the SICR rules the quantitative SICR rules were adjusted. The SICR movements per scenario are shown below:

Base – 2 credit grades move downwards since origination
Lower – 3 credit grades move downwards since origination (less stringent)
Upper – 1 credit grade move downwards since origination (more stringent)

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.2 Expected credit loss measurement (continued)

3.2.2.4 Forward-looking information incorporated in the ECL models (continued)

Sensitivity analysis	Allowances for credit losses 2020 N$'000	Allowances for credit losses 2019 N$'000
ECL	**939,915**	763,519
SICR rules		
Lower	**933,244**	752,218
Upper	**990,502**	800,111

3.2.2.5 Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within the Group are homogeneous.

In performing this grouping, there must be sufficient information for the Group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:

- Product type
- Repayment type
- Collateral type

The groupings above only applies to stage 1 and stage 2 credit impairments.

All stage 3 exposures are assessed individually.

The appropriateness of groupings is monitored and reviewed on a periodic basis by the IFRS 9 committee.

3.2.3 Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models
- Impacts on the measurement of ECL due to changes made to models and assumptions
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period (see note 3.2.10)

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Loss allowance (continued)

The following table explains the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	2020					
Group	Opening ECL 1 July 2019	Total transfer between stages	Net impairments raised	Impaired accounts written off	Exchange and other movements[1]	Closing ECL 30 June 2020
Overdrafts	197,638	–	87,789	(10,826)	(2,080)	272,521
Stage 1	34,079	18,152	(7,456)	–	(1,640)	43,135
Stage 2	38,902	(20,453)	21,531	(182)	(441)	39,357
Stage 3	124,657	2,301	73,714	(10,644)	1	190,029
Term loans	209,767	–	177,381	(50,560)	8,428	345,016
Stage 1	40,279	(10,754)	65,124	–	(6,165)	88,484
Stage 2	23,474	(9,271)	2,625	–	9,726	26,554
Stage 3	146,014	20,025	109,632	(50,560)	4,867	229,978
Mortgages	164,841	–	71,102	(6,186)	249	230,006
Stage 1	13,177	6,458	(3,310)	–	(958)	15,367
Stage 2	14,925	(7,008)	14,641	–	(406)	22,152
Stage 3	136,739	550	59,771	(6,186)	1,613	192,487
Instalment finance	191,273	–	(14,123)	(11,130)	(73,648)	92,372
Stage 1	65,001	1,009	(1,581)	–	(28,186)	36,243
Stage 2	24,955	(766)	(1,657)	–	(10,345)	12,187
Stage 3	101,317	(243)	(10,885)	(11,130)	(35,117)	43,942
Total loans and advances	763,519	–	322,149	(78,702)	(67,051)	939,915
Other financial instruments	36,873	–	(10,726)	–	(15,308)	10,839
Stage 1	897	–	(197)	–	–	700
Stage 2	35,976	–	(10,529)	–	(15,308)	10,139
Total	800,392	–	311,423	(78,702)	(82,359)	950,754

[1] *Exchange and other movements includes forex movements and the removal of the operating segment classified as a discontinued operation.*

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Loss allowance (continued)

	2020					
Company	**Opening ECL 1 July 2019**	**Total transfer between stages**	**Net impairments raised**	**Impaired accounts written off**	**Exchange and other movements**	**Closing ECL 30 June 2020**
Financial assets at amortised cost	**17,132**	**–**	**153,933**	**–**	**(3,649)**	**167,416**
Stage 1	17,132	(17,132)	–	–	–	–
Stage 2	–	17,132	153,933	–	(3,649)	167,416
Other assets	**16,303**	**–**	**16,543**	**–**	**(781)**	**32,065**
Stage 3	16,303	–	16,543	–	(781)	32,065
Total	**33,435**	**–**	**170,476**	**–**	**(4,430)**	**199,481**

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Loss allowance (continued)

The following table explains the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	2019					
Group	**Opening ECL 1 July 2018**	**Total transfer between stages**	**Net impairments raised**	**Impaired accounts written off**	**Exchange and other movements**	**Closing ECL 30 June 2019**
Overdrafts	177,223	–	25,301	(4,886)	–	197,638
Stage 1	38,684	(517)	(4,605)	(1)	518	34,079
Stage 2	31,072	(4,318)	7,830	(42)	4,360	38,902
Stage 3	107,467	4,835	22,076	(4,843)	(4,878)	124,657
Term loans	182,495	–	73,529	(42,630)	(3,627)	209,767
Stage 1	34,454	(461)	15,166	(10,819)	1,939	40,279
Stage 2	21,364	(2,969)	2,110	(2,706)	5,675	23,474
Stage 3	126,677	3,430	56,253	(29,105)	(11,241)	146,014
Mortgages	152,269	–	12,974	(402)	–	164,841
Stage 1	16,514	(221)	(3,116)	–	–	13,177
Stage 2	18,267	(2,539)	(3,563)	–	2,760	14,925
Stage 3	117,488	2,760	19,653	(402)	(2,760)	136,739
Instalment finance	269,130	–	(2,946)	(25,075)	(49,836)	191,273
Stage 1	64,341	(862)	11,473	(1)	(9,950)	65,001
Stage 2	72,423	(10,065)	(31,528)	(14)	(5,861)	24,955
Stage 3	132,366	10,927	17,109	(25,060)	(34,025)	101,317
Total loans and advances	781,117	–	108,858	(72,993)	(53,463)	763,519
Other financial instruments	19,696	–	17,177	–	–	36,873
Stage 1	729	–	168	–	–	897
Stage 2	18,967	–	17,009	–	–	35,976
Total	800,813	–	126,035	(72,993)	(53,463)	800,392

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Loss allowance (continued)

	2019					
Company	**Opening ECL 1 July 2018**	**Total transfer between stages**	**Net impairments raised**	**Impaired accounts written off**	**Exchange and other movements**	**Closing ECL 30 June 2019**
Financial assets at amortised cost	1,411	–	15,721	–	–	17,132
Stage 1	1,411	(1,411)	–	–	–	–
Stage 2	–	1,411	15,721	–	–	17,132
Other assets	22,395	–	–	–	(6,092)	16,303
Stage 3	22,395	–	–	–	(6,092)	16,303
Total	23,806	–	15,721	–	(6,092)	33,435

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Loss allowance (continued)

Significant changes in the gross carrying amount of financial assets that contributed to changes in the loss allowance were as follows:

Overdrafts

- Gross overdrafts increase by N$263.6million (4.7%) from the prior period, which lead to stage 1 expected credit losses increasing and stage 2 expected credit losses to remain relatively flat year-on-year
- Non-performing overdrafts stayed relatively flat year-on-year at N$338.4 million. The non-performing overdrafts are well secured with a fair value of security of N$259.5 million

Term loans

- Term loans increased by N$1.1 billion (9.2%) from the prior period, mainly driven by growth in commercial loans
- The write-off of term loans with a gross carrying value of N$50.6 million resulted in the reduction of the expected credit loss allowance with the same amount. This was offset by increases in the net impairments raised of N$177.4 million

Mortgages

- Mortgages grew by N$666.9 million (3.8%) over the prior period
- Expected loss allowances grew by 39.5% mainly as a result of an increase in well-collateralised non-performing mortgage loans of N$147.2 million

Instalment finance

- Gross instalment finance loans grew by N$110.2 million (3.4%) year-on-year

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.4 Maximum exposure to credit risk before collateral held or other credit enhancements

The table represents a worst-case scenario of credit risk exposure to the Group as at 30 June 2020 and 2019, without taking account of any collateral held or other credit enhancements attached. For all assets listed on the statement of financial position, the exposures set out below are based on carrying amounts as reported.

3.2.4.1 Maximum exposure to credit risk – All financial instruments

		Maximum exposure	
Group	Notes	**2020 N$'000**	**2019 N$'000**
Credit risk exposures relating to on-statement of financial position assets are as follows:			
Cash and balances with the central bank	13.	**909,117**	1,572,616
Financial assets at fair value through profit or loss	14.	**2,314,333**	2,037,188
– Unit trust investments		**2,314,333**	2,037,188
Gross financial assets at amortised cost	14.	**712,757**	897,187
– Treasury bills		**–**	208,367
– Government stock		**712,757**	688,820
Financial assets at fair value through other comprehensive income	15.	**5,773,633**	4,742,725
– Investment Securities		**3,992**	3,160
– Treasury bills		**4,191,108**	3,494,404
– Government stock		**799,427**	728,510
– Tradable instruments		**683,151**	476,153
– Exchange traded funds		**55,191**	–
– Corporate bonds		**40,764**	40,498
Due from other banks	16.	**2,996,527**	1,724,043
Gross loans and advances to customers	17.	**41,018,537**	38,813,102
– Overdrafts		**5,840,028**	5,576,472
– Term loans		**13,102,458**	12,001,762
– Mortgages		**18,415,771**	17,748,863
– Instalment finance		**3,319,511**	3,209,275
– Preference shares		**467,346**	409,743
– Effective interest rate impact per IFRS 9		**(126,577)**	(133,013)
Other assets*	18.	**289,918**	412,740
Total exposure on-statement of financial position		**54,014,822**	50,199,601
Credit risk exposure relating to off-statement of financial position items are as follows:			
Liabilities under guarantees	38.	**1,345,544**	1,280,854
Letters of credit	38.	**209,717**	230,143
Loan commitments	38.	**2,757,157**	1,699,163
Total exposure off-statement of financial position		**4,312,418**	3,210,160
Total credit risk exposure		**58,327,240**	53,409,761

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

3.2.4.1 Maximum exposure to credit risk – All financial instruments (continued)

		Maximum exposure	
Company	Notes	**2020 N$'000**	**2019 N$'000**
Cash and bank balances	13.	**387,857**	663,895
Financial assets at fair value through profit or loss	14.	**716,953**	428,092
– Money market investments		**716,953**	428,092
Gross financial assets at amortised cost	14.	**294,848**	255,650
– Preference shares		**294,848**	255,650
Financial assets at fair value through other comprehensive income	15.	**683,151**	476,153
– Tradable instruments		**683,151**	476,153
Other assets*		**54,586**	61,009
Total exposure on statement of financial position		**2,137,395**	1,884,799
Total credit risk exposure		**2,137,395**	1,884,799

* *Other assets exposed to credit risk include insurance fund asset, accounts receivable, derivatives as well as clearing and settlement accounts.*

The most significant exposures are derived from loans and advances to banks and customers.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its loans and advances portfolio and other securities based on the following:

- The Group employs a range of policies and practices to mitigate credit risk. Refer to note 3.2.3
- Mortgage loans, which represent the biggest group in the loans and advances to customers portfolio, are backed by collateral
- All financial assets, other than loans and advances, are neither past due nor impaired.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

3.2.4.2 Maximum exposure to credit risk – Financial instruments subject to the impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

	2020			
	Stage 1 12-month ECL N$'000	Stage 2 Lifetime ECL N$'000	Stage 3 Lifetime ECL N$'000	Total N$'000
Credit grade				
Not rated	(98,801)	(8,173)	(163,075)	(270,049)
Low Risk (CG1 – CG2)	(35,060)	–	–	(35,060)
Medium Risk (CG3 – CG5)	(49,368)	–	–	(49,368)
Special monitoring (CG6 – CG7)	–	(92,077)	–	(92,077)
Doubtful (CG8 – CG9)	–	–	(493,361)	(493,361)
Loss allowance	(183,229)	(100,250)	(656,436)	(939,915)
Gross carrying amount[1]	37,519,367	1,705,853	1,919,894	41,145,114
Carrying amount	37,336,138	1,605,603	1,263,458	40,205,199

[1] *Excludes the impact of interest in suspense and the IFRS 9 effective interest impact*

Financial instruments at amortised cost				
Credit grade				
Non-rated	(700)	(10,139)	–	(10,839)
Loss allowance	(700)	(10,139)	–	(10,839)
Gross carrying amount	54,548	669,048	–	723,596
Carrying amount	53,848	658,909	–	712,757

	2019			
	Stage 1 12–month ECL N$'000	Stage 2 Lifetime ECL N$'000	Stage 3 Lifetime ECL N$'000	Total N$'000
Credit grade				
Not rated	(75,760)	(23,402)	(163,829)	(262,991)
Low Risk (CG1 – CG2)	(33,278)	–	–	(33,278)
Medium Risk (CG3 – CG5)	(43,498)	–	–	(43,498)
Special monitoring (CG6 –CG7)	–	(78,854)	–	(78,854)
Doubtful (CG8 – CG9)	–	–	(344,898)	(344,898)
Loss allowance	(152,536)	(102,256)	(508,727)	(763,519)
Gross carrying amount[1]	35,614,458	1,718,866	1,612,791	38,946,115
Carrying amount	35,461,922	1,616,610	1,104,064	38,182,596

[1] *Excludes the impact of interest in suspense and the IFRS 9 effective interest impact*

Financial instruments at amortised cost				
Credit grade				
Non-rated	(897)	(35,976)	–	(36,873)
Loss allowance	(897)	(35,976)	–	(36,873)
Gross carrying amount	191,834	705,353	–	897,187
Carrying amount	190,937	669,377	–	860,314

Information on how the Expected Credit Loss (ECL) is measured and how the three stages above are determined is included in note 3.2.2 'Expected credit loss measurement'.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.5 Risk limit control and mitigation policies

The group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a monthly basis and are subject to regular review. Limits on the level of credit risk by country are approved by the board of directors. The exposure to any one borrower, including banks and brokers, is further restricted by sublimits covering on and off-statement of financial position exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts.

Exposure to credit risk is managed up front when an application for credit is received. The credit risk management model is utilised by the Group and assesses the three components of safety, desirability and profitability. Throughout the lifespan of the credit facility, regular analyses of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations are assessed and lending limits are changed where appropriate. Exposure to credit risk is also managed in part by obtaining collateral, insurance and corporate and personal guarantees. The amount the Group is willing to lend unsecured is restricted and approved by the board.

Placements with banks, including loans and advances to banks, are subject to the normal credit process. The credit limits to these banks take into consideration ratings performed by external rating agencies.

Other specific control and mitigation measures are outlined below:

(a) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. Within the credit risk area, mandates are predetermined in order to ensure that the applicable level of authority provides guidance and approval for advances. Risk exposure to advances is reduced by obtaining approved security as defined by the board credit committee and listed in the advance instruction manual.

The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation and the principal collateral types for loans and advances are:

- Cash deposited with and ceded to the Group
- Deposits with any registered financial institution and ceded to the Group
- Life insurance policies with a confirmed surrender value
- Any other form of tangible collateral security subject to approval by the board credit committee

Collateral per class of loans and advances:

Mortgages:

- First, second and third covering bond
- Cession of fire policy

Instalment finance:

- The instalment finance contract binds the underlying article as security

The following security can be given for any loan class depending on the circumstances and purpose of the loan:

- Suretyships
- Registered cession of life insurance policy
- Any other form of tangible collateral security subject to approval by the board credit committee
- Cession of fixed deposits, notice deposits, bills, bonds, shares, investments or debtors

Valuation methodologies (which include applying a haircut to the fair value of collateral depending on a number of factors) and the period of validity on collateral are outlined in established policies, which are approved by the board.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.5 Risk limit control and mitigation policies (continued)

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	2020			
	Gross exposure N$'000	Impairment allowance N$'000	Carrying amount N$'000	Fair value of collateral held N$'000
Credit-impaired assets				
– Overdrafts	**338,351**	**(190,029)**	**148,322**	**259,473**
– Term loans	**472,009**	**(229,978)**	**242,031**	**276,384**
– Mortgages	**914,732**	**(192,487)**	**722,245**	**771,473**
– Instalment finance	**194,802**	**(43,942)**	**150,860**	**152,628**
Total credit-impaired assets	**1,919,894**	**(656,436)**	**1,263,458**	**1,459,958**

	2019			
	Gross exposure N$'000	Impairment allowance N$'000	Carrying amount N$'000	Fair value of collateral held N$'000
Credit-impaired assets				
– Overdrafts	382,321	(124,657)	257,664	283,662
– Term loans	355,436	(146,014)	209,422	248,959
– Mortgages	767,494	(136,739)	630,755	669,801
– Instalment finance	107,540	(101,317)	6,223	55,662
Total credit-impaired assets	1,612,791	(508,727)	1,104,064	1,258,084

The value of tangible collateral disclosed above is limited to the outstanding balance, therefore any overcollateralised portion of a loan is excluded from the value of tangible collateral. Impairments are raised for undercollateralised non-performing loans, resulting in a net exposure of nil.

Property valuation

In the case where a property is offered as security in the form of covering a mortgage bond, the valuation of the property is valid for two years in the banking book (excluding residential properties offered for home loans). A revaluation of the property needs to be done when there is an indication that the value of the property has declined. A revaluation of the property by an approved valuator is required when a further advance or additional mortgage is applied for, when the mortgage defaults, when an application for the release of collateral or any additional security is received or for properties in possession. Homeowners comprehensive insurance is compulsory for all mortgage loans. All articles financed by the Group must be comprehensively insured.

Life insurance valuation

Life insurance that is used as security for loans taken out at the Group is ceded to the Group and the cession is registered by the insurance company. The values of the life insurance policies ceded to the Group must be updated at least annually to determine the security value and to establish whether premiums are up to date.

Credit life insurance

In the case of micro-loans, the customer signs a formal loan agreement and sufficient credit life insurance is ceded to the Group. A formal payroll agreement between the applicant's employer and the Group is also signed. Non-government applicants must sign an acknowledgement of debt and cede their surplus benefits (e.g. unpaid leave) payable on termination of service to the Group.

Long-term finance and lending to corporate entities are generally secured. In addition, in order to minimise the credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Although revolving individual credit facilities are generally unsecured, these are only granted to clients after stringent credit reviews.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.5 Risk limit control and mitigation policies (continued)

(b) Financial instruments subject to master netting arrangements ("MNA") and similar agreements

In accordance with IAS 32 the Group offsets financial assets and financial liabilities and presents the net amount in the statement of financial position only if there is both a legally enforceable right to offset and there is an intention to settle the amounts on a net basis or to realise the asset and settle the liability simultaneously. The Group is subject to a MNA in the form of ISDA agreements with counterparties. ISDA agreements, under which swaps and derivatives are traded, may not be legally enforceable as one transaction to enforce post-solvency set-off and netting within Namibia, thus the IAS 32 set off requirements are not met. Consequently no financial assets and financial liabilities, subject to MNA's, have been presented on the net amount in the statement of financial position.

(c) Derivatives

The Group maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

(d) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurance that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

3.2.6 Credit quality of loans and advances and other financial instruments

(i) Credit quality and management of loans and advances

Initial applications

The banks (Bank Windhoek and Bank Gaborone) are the largest contributors to the Group's credit risk. The banks apply a standardised approach when assessing applications for credit. All applications are completed according to the banks' risk model, which covers all information required to make an informed decision when granting advances. The risk model has the main components of safety, desirability and profitability which is further broken down as:

- Background
- Needs
- Financial position
- Security
- Desirability
- Profitability
- Recommendation – positive/negative aspects

Internal scoring models are used except for the micro-loans book, where the Delphi score forms part of the assessment.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.6 Credit quality of loans and advances and other financial instruments (continued)

(i) Credit quality and management of loans and advances (continued)

Subsequent credit assessments

Management information system reports were developed over time in order to effectively monitor and manage the quality of the loan portfolio and pro-actively identify problem accounts and trends. The following reports are generated:

- Excesses are reported on a daily basis and reviewed annually.
- The branches submit a monthly report on specific issues in order to take remedial actions on dormant accounts, suspended accounts, irregular accounts (outstanding 30 days and longer), outstanding security, special mention accounts, guarantees, letters of credit and foreign exchange contracts, floor plans, savings accounts in overdraft and bad debts written off within branch mandates.
- The credit department submits a monthly report to the executive management team and a more detailed report to the board of directors on a quarterly basis regarding the status of the credit portfolio of the Group.
- Monthly statistics per product are used to monitor the quality and management of the loan portfolio per branch.
- All clients with exposures approved above branch level are interviewed by credit before non-performing accounts are transferred to the legal collections branch.
- All transfers to the legal collections branch with a material impairment are scrutinised by the credit department and categorised under:
  - Poor assessment
  - Poor management
  - Poor collateral management
  - Economic reasons
  - Other

The banks have a process to proactively manage potential problem accounts to prevent possible losses. These advances are identified with assistance of the branches and are part of monthly credit reporting processes. Impairments on these active accounts are raised in accordance with regulatory requirements under the special mention category.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.6 Credit quality of loans and advances and other financial instruments (continued)

(i) Credit quality and management of loans and advances (continued)

Subsequent credit assessments (continued)

The table below shows the loans and advances age analysis as required by the Banking Institutions Act:

Group	Stage 1	Stage 2			Stage 3	
	Not past due	0–30 days N$'000	31–60 days N$'000	61–90 days N$'000	More than 90 days N$'000	Total N$'000
As at 30 June 2020						
Overdrafts	**5,285,100**	**161,268**	**41,893**	**13,416**	**338,351**	**5,840,028**
Term loans	**12,430,580**	**65,056**	**62,736**	**72,077**	**472,009**	**13,102,458**
Mortgages	**17,098,662**	**198,205**	**109,573**	**94,599**	**914,732**	**18,415,771**
Instalment finance	**3,056,981**	**20,536**	**18,311**	**28,881**	**194,802**	**3,319,511**
Preference shares	**467,346**	**–**	**–**	**–**	**–**	**467,346**
Total gross loans and advances[1]	**38,338,669**	**445,065**	**232,513**	**208,973**	**1,919,894**	**41,145,114**
Impairments raised	**(179,429)**	**(52,235)**	**(27,289)**	**(24,526)**	**(656,436)**	**(939,915)**
Net loans and advance[1]	**38,159,240**	**392,830**	**205,224**	**184,447**	**1,263,458**	**40,205,199**

[1] *Excludes the impact of interest in suspense and the IFRS 9 effective interest rate impact.*

Group	Stage 1	Stage 2			Stage 3	
	Not past due	0–30 days N$'000	31–60 days N$'000	61–90 days N$'000	More than 90 days N$'000	Total N$'000
As at 30 June 2019						
Overdrafts	4,654,126	495,685	12,883	31,457	382,321	5,576,472
Term loans	11,363,218	139,865	47,933	95,310	355,436	12,001,762
Mortgages	16,148,436	525,174	198,244	109,515	767,494	17,748,863
Instalment finance	3,038,935	43,793	7,560	11,447	107,540	3,209,275
Preference shares	409,743	–	–	–	–	409,743
Total gross loans and advances[1]	35,614,458	1,204,517	266,620	247,729	1,612,791	38,946,115
Impairments raised	(152,536)	(71,657)	(15,861)	(14,738)	(508,727)	(763,519)
Net loans and advances[1]	35,461,922	1,132,860	250,759	232,991	1,104,064	38,182,596

[1] *Excludes the impact of interest in suspense and the IFRS 9 effective interest rate impact.*

Further information of the impairment allowance for loans and advances to customers is provided in note 17.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.6 Credit quality of loans and advances and other financial instruments (continued)

(ii) Non-performing loans and advances

Loans and advances are managed with reference to the days in arrears. Days in arrears are calculated based on the amount past due relative to the instalment amount. Loans and advances outstanding for longer than 90 days are considered non-performing and are included in stage 3 for the loss allowance calculation. As determined by the regulatory requirements, any asset which is overdue 30 days or more but less than 90 days shall be classified as special mention, at a minimum and is subject to impairment in accordance with the stage 2 calculations. The Group follows a more conservative approach than the regulators and already classifies loans in 0–30 days on a watchlist, where, on a case-by-case basis, indicators of a possible future loss event exist. Additionally, loans that are made to a specific industry or individuals that are not past due, but we deem to be risky are assessed and in certain instances subject to impairment in accordance with the stage 2 calculations. Loans categorised on the watchlist are performing but subject to the impairment in accordance to the IFRS 9 calculations.

Non-performing loans and advances to customers before taking into consideration the cash flows from collateral held is N$1.9 billion (2019: N$1.6 billion). The increase in non-performing loans and advances is mainly due to the deterioration of the macroeconomic environment.

Refer to note 3.2.3 a) for the range of collateral policies and practices in place.

(iii) Non-performing loans and advances by geographical area

Geographical area	2020 N$'000	2019 N$'000
Namibia	**1,470,629**	1,222,936
Botswana	**426,140**	278,585
Zambia	**23,125**	111,270
	1,919,894	1,612,791

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.6 Credit quality of loans and advances and other financial instruments (continued)

(iv) Credit quality of financial assets other than loans and advances

As at 30 June the following financial instruments are neither past due nor impaired:

	Group		Company	
	2020 N$'000	**2019 N$'000**	**2020 N$'000**	**2019 N$'000**
Cash and balances with the central bank	**909,117**	1,572,616	**387,857**	663,895
Financial assets at fair value through profit or loss	**2,314,333**	2,037,188	**716,953**	428,092
Financial assets at fair value through other comprehensive income	**5,733,633**	4,742,725	**683,151**	476,153
Due from other banks	**2,996,527**	1,724,043	**–**	–
Other assets	**289,918**	412,740	**54,586**	61,009

Balances with the central bank, treasury bills and government stock (financial assets at fair value through other comprehensive income) are subject to counterparty limits. Balances due from other banks are also subject to counterparty limits and together with credit ratings are factors in determining the investment decision.

The group applies credit ratings in line with regulatory requirements to reflect the credit risk of financial instruments. External credit ratings from reputable international rating agencies are utilised for cross border exposures, which is augmented with thorough internal credit and financial analyses in the determination and setting of exposure limits. Distinction between two broad credit quality classes are made, i.e. investment grade (AAA to BBB) and speculative/high-yield (BB and lower). Fitch ratings are utilised as far as possible. If Fitch ratings are not available, Moody's and Standard & Poor's ratings are used for classification. If no ratings are available (i.e. certain African countries) these exposures are classified as unrated and are subject to much stricter lending criteria.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.6 Credit quality of loans and advances and other financial instruments (continued)

(iv) Credit quality of financial assets other than loans and advances (continued)

The following section summarises the credit quality of financial assets and exposures to corresponding and counterparty banks for 30 June.

Group	Carrying value N$'000	Investment grade (AAA to BBB) N$'000	Speculative/ high-yield (BB and lower) N$'000	Unrated N$'000	Total N$'000
As at 30 June 2020					
Balances with the central bank	–	–	345,612	–	345,612
Cash balances	–	–	–	563,505	563,505
Financial assets at fair value through profit or loss	–	–	2,314,333	–	2,314,333
– Unit Trust and money market investments	–	–	2,314,333	–	2,314,333
Financial assets at amortised cost	–	–	712,757	–	712,757
– Government stock	–	–	712,757	–	712,757
Financial assets at fair value through other comprehensive income	–	216,809	5,555,311	1,513	5,773,633
– Investment securities	–	–	2,479	1,513	3,992
– Treasury bills	–	–	4,191,108	–	4,191,108
– Government stock	–	216,809	582,618	–	799,427
– Tradable instruments	–	–	683,151	–	683,151
– Other securities	–	–	95,955	–	95,955
Due from other banks	–	489,252	89,830	2,417,445	2,996,527
Other assets	–	–	–	289,918	289,918
Non-financial assets	1,745,825	–	–	–	1,745,825
Total assets (excluding loans and advances)	1,745,825	706,061	9,017,843	3,272,381	14,742,110

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.6 Credit quality of loans and advances and other financial instruments (continued)

(iv) Credit quality of financial assets other than loans and advances (continued)

Group	Carrying value N$'000	Investment grade (AAA to BBB) N$'000	Speculative/ high-yield (BB and lower) N$'000	Unrated N$'000	Total N$'000
As at 30 June 2019					
Balances with the central bank	–	–	1,188,613	–	1,188,613
Cash balances	–	–	–	384,003	384,003
Financial assets at fair value through profit or loss	–	–	2,037,188	–	2,037,188
– Unit trust and money market investments	–	–	2,037,188	–	2,037,188
Financial assets at amortised cost	–	643,678	216,636	–	860,314
– Treasury bills	–	–	193,059	–	193,059
– Government stock	–	643,678	23,577	–	667,255
Financial assets at fair value through other comprehensive income	–	–	4,741,333	1,392	4,742,725
– Investment securities	–	–	1,768	1,392	3,160
– Treasury bills	–	–	3,494,404	–	3,494,404
– Government stock	–	–	728,510	–	728,510
– Tradable instruments	–	–	476,153	–	476,153
– Other securities	–	–	40,498	–	40,498
Due from other banks	–	554,081	16,795	1,153,167	1,724,043
Other assets	–	–	–	412,740	412,740
Non–financial assets	1,278,746	–	–	–	1,278,746
Total assets (excluding loans and advances)	1,278,746	1,197,759	8,200,565	1,951,301	12,628,372

Unrated exposures consist mainly of cash balances, due from other banks and other assets, which are short-term and highly liquid in nature. The creditworthiness of government and large commercial banks' money market instruments are of high quality, which poses low credit risk. Other assets consist of accounts receivable, insurance fund asset, derivatives as well as clearing and settlement accounts. Rated and unrated exposures are not collateralised and foreign currency exposures are hedged.

For the company, all financial assets are rated at investment grade (AAA to BBB) for the current period and prior period, except for preference shares and other assets, which are unrated.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.6 Credit quality of loans and advances and other financial instruments (continued)

(iv) Credit quality of financial assets other than loans and advances (continued)

The following risk weightings are applied for due from other banks when calculating the risk-based capital ratios:

(a) Long–term claims

Exposures to banks assigned a credit risk assessment rating of AAA to AA-	**20%**
Exposures to banks assigned a credit assessment rating of A+ to BBB- or unrated	**50%**
Exposures to banks assigned a credit assessment rating of BB+ to B-	**100%**
Exposures to banks assigned a credit assessment rating of below B-	**150%**

(b) Short–term claims

Claims denominated and funded in domestic currency with an original maturity of three months or less, assigned a credit assessment rating of AAA to BBB- or unrated	**20%**
Exposures to banks assigned a credit risk assessment rating of AAA to AA-	**20%**
Exposures to banks assigned a credit assessment rating of A+ to BBB- or unrated	**20%**
Claims to banks assigned a credit assessment rating of BB+ to B- or unrated	**50%**
Claims to banks assigned a credit assessment rating of below B-	**150%**

Unchanged from prior period risk weightings.

3.2.7 Repossessed collateral

The Group obtains assets by taking possession of collateral held as security. The value of the assets still on the statement of financial position for 30 June 2020 was N$24.7 million (30 June 2019: N$8.8 million). Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the statement of financial position as other assets.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.8 Credit risk-weighted amounts

The following risk-weighted amounts, including related impairments and write-offs, have been assigned to the components of credit risk for the Group, as defined in BID 5 – 'Determination on capital adequacy'. The figures below will not reconcile to the statement of financial position as it represents statutory, risk-weighted amounts.

	Exposure N$'000	Impairment N$'000	Risk-weighted amounts N$'000	Written off N$'000
As at 30 June 2020				
Counterparties				
Sovereign and central bank	**6,061,843**	**–**	**298,338**	**–**
Security firms	**30,343**	**–**	**30,343**	**–**
Public sector entities	**712,123**	**–**	**305,480**	**–**
Banks	**3,536,751**	**–**	**890,843**	**–**
Corporate	**13,509,108**	**136,571**	**13,493,027**	**–**
Retail	**7,853,372**	**212,710**	**5,848,180**	**3,535**
Residential mortgage properties	**11,224,083**	**64,888**	**5,818,047**	**–**
Commercial real estate	**7,191,688**	**55,329**	**7,450,100**	**–**
Other assets	**7,622,541**	**–**	**5,460,591**	**–**
Included in other assets:				
– Listed shares	**3,992**	**–**	**3,992**	**–**
	57,741,852	**469,498**	**39,594,949**	**3,535**
Commitments	**3,682,449**	**60,510**	**1,759,739**	**–**
As at 30 June 2019				
Counterparties				
Sovereign and central bank	5,407,179	–	206,751	–
Security firms	8,682	–	8,682	–
Public sector entities	363,609	–	123,450	–
Banks	2,133,868	–	606,932	–
Corporate	12,296,584	97,872	12,321,977	–
Retail	7,161,050	162,498	5,347,680	72,591
Residential mortgage properties	10,624,876	41,361	5,480,627	402
Commercial real estate	7,436,085	47,861	7,462,825	–
Other assets	6,472,113	–	4,345,012	–
Included in other assets:				
– Listed shares	3,160	–	3,160	–
	51,904,046	349,592	35,903,936	72,993
Commitments	3,003,896	–	1,301,996	–

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.8 Credit risk-weighted amounts (continued)

Only claims on banks are risk-weighted based on external credit assessment for capital adequacy calculations. The Group utilises available external rating agencies' ratings on both short-term and long-term exposures. No amounts are deducted from the Group's capital. The Bank of Namibia does not have its own credit rating. The sovereign and central bank credit risk weighting has been 0 % for local currency issued and controlled by the central bank. The long-term country credit ratings by an external credit rating agency for Namibia, Botswana and Zambia were as follows:

	2020	2019
Namibia long-term local currency issuer default rating	BB-	BB+
Namibia long-term issuer default rating	BB-	BB+
Botswana long-term local currency issuer default rating	BBB+	A-
Botswana long-term issuer default rating	BBB+	A-
Zambia long-term local currency issuer default rating	CC	CCC-
Zambia long-term issuer default rating	CC	CCC-

3.2.9 Credit concentration risk

The Group manages credit concentration risk by imposing credit risk concentration caps on the exposure for different loans and advances classifications, such as product classes, regions and industry. The credit risk concentration caps are directly linked to the board-approved risk capacity, appetite and tolerance thresholds, and are managed as part of the risk management process. The credit concentration risk is also further assessed using stress testing and scenario analyses quantitative models.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.9 Credit concentration risk (continued)

The following table breaks down the Group's main credit exposure at their gross amounts, as categorised by the industry sectors of counterparties:

Group	Cash and balances with the central bank N$'000	Financial assets at fair value through other comprehensive income N$'000	Financial assets at fair value through profit or loss N$'000	Financial assets at amortised cost N$'000	Due from other banks N$'000	Loans and advances to customers N$'000	Other assets[2] N$'000	Total N$'000
As at 30 June 2020								
Agriculture and forestry	–	–	–	–	–	2,198,668	–	2,198,668
Fishing	–	–	–	–	–	729,761	–	729,761
Mining	–	–	–	–	–	910,149	–	910,149
Manufacturing	–	–	–	–	–	792,285	–	792,285
Building and construction	–	–	–	–	–	1,491,570	–	1,491,570
Electricity, gas and water	–	–	–	–	–	1,663,533	–	1,663,533
Trade and accommodation[1]	–	–	–	–	–	3,521,664	–	3,521,664
Transport and communication	–	–	–	–	–	1,303,017	–	1,303,017
Finance and insurance	563,505	783,098	2,314,333	–	2,996,527	2,045,499	–	8,702,962
Real estate and business services	–	–	–	–	–	7,447,834	–	7,447,834
Government	345,612	4,990,535	–	723,596	–	4,436,727	–	10,496,470
Individuals	–	–	–	–	–	9,745,222	–	9,745,222
Other	–	–	–	–	–	4,859,185	289,918	5,149,103
Impairment	–	–	–	(10,839)	–	(939,915)	–	(950,754)
Effective interest rate impact	–	–	–	–	–	(126,577)		(126,577)
	909,117	5,773,633	2,314,333	712,757	2,996,527	40,078,622	289,918	53,074,907

[1] *Trade and accommodation includes all loans and advances granted to individuals that acquire property for residential purposes through closed corporation entity types, e.g. residential mortgage loans and advances granted to hotels, lodges, restaurants and the related.*

[2] *Other assets include the insurance fund asset, accounts receivable, derivatives as well as clearing and settlement accounts.*

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.9 Credit concentration risk (continued)

Group	Cash and balances with the central bank N$'000	Investment securities N$'000	Financial assets at fair value through profit or loss N$'000	Financial assets at amortised cost N$'000	Due from other banks N$'000	Loans and advances to customers N$'000	Other assets[2] N$'000	Total N$'000
As at 30 June 2019								
Agriculture and forestry	–	–	–	–	–	2,140,681	–	2,140,681
Fishing	–	–	–	–	–	685,374	–	685,374
Mining	–	–	–	–	–	956,961	–	956,961
Manufacturing	–	–	–	–	–	866,729	–	866,729
Building and construction	–	–	–	–	–	1,366,829	–	1,366,829
Electricity, gas and water	–	–	–	–	–	1,681,518	–	1,681,518
Trade and accommodation[1]	–	–	–	–	–	3,990,379	–	3,990,379
Transport and communication	–	–	–	–	–	1,245,644	–	1,245,644
Finance and insurance	384,003	405,265	2,037,188	–	1,724,043	3,790,759	357	8,341,615
Real estate and business services	–	–	–	–	–	4,783,496	–	4,783,496
Government	1,188,613	4,337,460	–	897,187	–	4,920,377	–	11,343,637
Individuals	–	–	–	–	–	11,526,129	–	11,526,129
Other	–	–	–	–	–	858,226	412,383	1,270,609
Impairment	–	–	–	(36,873)	–	(763,519)	–	(800,392)
	1,572,616	4,742,725	2,037,188	860,314	1,724,043	38,049,583	412,740	49,399,209

[1] *Trade and accommodation includes all loans and advances granted to individuals that acquire property for residential purposes through closed corporation entity types, e.g. residential mortgage loans and advances granted to hotels, lodges, restaurants and the related.*

[2] *Other assets include the insurance fund asset, accounts receivable, derivatives as well as clearing and settlement accounts.*

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.10 Credit risk concentration by geographical area

Group	Cash and balances with the central bank N$'000	Financial assets at fair value through other compre-hensive income N$'000	Financial assets at fair value through profit or loss N$'000	Due from other banks N$'000	Loans and advances to customers N$'000	Financial assets at amortised cost N$'000	Other assets N$'000	Total N$'000
As at 30 June 2020								
Namibia	**708,320**	**4,873,673**	**2,309,579**	**2,986**	**34,465,488**	**712,757**	**252,054**	**43,324,857**
Botswana	**200,464**	**216,809**	**4,754**	**1,727,682**	**5,469,850**	**–**	**35,783**	**7,655,342**
South Africa	**–**	**683,151**	**–**	**277,884**	**–**	**–**	**2,067**	**963,102**
United Kingdom	**–**	**–**	**–**	**31,368**	**–**	**–**	**–**	**31,368**
United States of America	**–**	**–**	**–**	**885,453**	**–**	**–**	**–**	**885,453**
Zambia	**333**	**–**	**–**	**291**	**143,284**	**–**	**14**	**143,922**
Other countries[1]	**–**	**–**	**–**	**70,863**	**–**	**–**	**–**	**70,863**
	909,117	**5,773,633**	**2,314,333**	**2,996,527**	**40,078,622**	**712,757**	**289,918**	**53,074,907**

Group	Cash and balances with the central bank N$'000	Financial assets at fair value through other compre-hensive income N$'000	Financial assets at fair value through profit or loss N$'000	Due from other banks N$'000	Loans and advances to customers N$'000	Financial assets at amortised cost N$'000	Other assets N$'000	Total N$'000
As at 30 June 2019								
Namibia	1,089,394	3,535,669	2,024,867	2,986	31,803,077	643,678	255,261	39,354,932
Botswana	335,258	730,904	12,321	811,106	5,476,856	–	113,837	7,480,282
South Africa	–	476,152	–	51,634	–	–	357	528,143
United Kingdom	–	–	–	13,818	–	–	–	13,818
United States of America	–	–	–	743,561	–	–	–	743,561
Zambia	147,964	–	–	3,761	769,650	216,636	43,285	1,181,296
Other countries[2]	–	–	–	97,177	–	–	–	97,177
	1,572,616	4,742,725	2,037,188	1,724,043	38,049,583	860,314	412,740	49,399,209

There are no exposures to other foreign countries which are not recorded on the statement of financial position.

[1] *Other foreign currency exposures relate mainly to exposures to the European Union euro: N$67.9 million due from other banks.*

[2] *Other foreign currency exposures relate mainly to exposures to the European Union euro: N$92.0 million due from other banks.*

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.11 Write-off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and value of the collateral is such that there is no reasonable expectation of recovering in full.

3.2.12 Modification of financial assets

The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to the term loans.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the under the original terms at initial recognition, when the modifications are not substantial and so does not result in derecognition of the original asset. The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after the restructuring, so that the assets are moved from Stage 3 to Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have been performed in accordance with the new terms for six consecutive months or more.

The Group continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

3.3 Market risk

The Group takes on exposure to market risks. Market risks arise from net open positions in interest rate, foreign currency and commodity products, all of which are exposed to general and specific market movements. It is the Group's policy not to enter into long-term, unhedged fixed interest rate contracts for loans and advances. Interest rate structures of deposits reflect the interest rate view and strategy of the ALCO and maturity structures of term deposits are in line with the ALCO policy. Interest rate structures are addressed on a monthly basis by the ALCO. External market resources are used in the determination of interest rate views by the interest rate subcommittee.

3.3.1 Market risk measurement techniques

The Group employs several measurement techniques to assess potential exposures to market change. Sensitivity analysis is applied to measure the impact of changes in interest rates. This measure is of importance in assessing the exposure of the Group's trading portfolio and the effect of such changes on the interest margin.

Other measurement techniques include comprehensive analysis of maturities, both from the advances and funding perspective.

3.3.2 Foreign currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk is managed through the market risk framework as well as the treasury dealing policy, both of which are approved by the board.

Market risk is managed by closely monitoring the limits as set out in the market risk framework. The Group follows a conservative approach to the products it deals with, and the approved products as well as the limits thereof are detailed in the dealing limits policy. The board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored continuously.

The traders' limits are a function of responsibility, experience and qualifications. Foreign currency risk management is achieved through an automated risk management system, and the limit management is independently administered by the middle office risk function within the risk department. All traders are required to sign off on the applicable policies, must be knowledgeable on its contents, and have them on hand when trading. All excesses on limits are immediately flagged, investigated, mitigated, and escalated if required.

Models and stress tests are used to gain an increased understanding of the market risk environment. In addition, foreign exchange positions are managed via stop-loss orders and closing or hedging out unwanted exposure via derivatives or in the spot market. Additionally, it is the Group's policy to close out all forward and option foreign currency transactions via back-to-back forward and option foreign currency transactions with counterparty banks, which is also diligently monitored by the independent middle office risk function.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.2 Foreign currency risk (continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk at year-end. Included in the table are the Group's financial instruments at the carrying amounts, categorised by currency:

Concentration of foreign currency denominated financial instruments

Group	NAD N$'000	ZMW N$'000	US$ N$'000	€ N$'000	BWP N$'000	ZAR[1] N$'000	Other N$'000	Total N$'000
As at 30 June 2020								
ASSETS								
Cash and balances with the central bank	705,656	333	–	–	202,394	734	–	909,117
Financial assets at fair value through profit or loss	2,309,579	–	–	–	4,754	–	–	2,314,333
Financial assets at amortised cost	712,757	–	–	–	–	–	–	712,757
Financial assets at fair value through other comprehensive income	4,872,193	–	–	–	216,809	683,151	1,480	5,773,633
Due from other banks	211,263	291	1,106,699	138,459	1,071,959	388,416	79,440	2,996,527
Loans and advances to customers	33,390,976	7,603	135,681	–	6,516,512	–	27,850	40,078,622
Other assets	254,121	14	–	–	35,783	–	–	289,918
Total financial assets	42,456,545	8,241	1,242,380	138,459	8,048,211	1,072,301	108,770	53,074,907
Non-financial assets	1,745,825	–	–	–	–	–	–	1,745,825
Assets held for sale	1,517,394	–	–	–	–	–	–	1,517,394
Total assets	45,719,764	8,241	1,242,380	138,459	8,048,211	1,072,301	108,770	56,338,126
LIABILITIES								
Due to other banks	721,998	–	–	6,355	240,790	–	–	969,143
Other borrowings	55,000	–	172,601	–	–	633,901	–	861,502
Debt securities in issue	4,580,616	–	–	–	358,371	703,304	–	5,642,291
Deposits	31,128,555	23	1,571,836	136,494	6,317,290	109,236	59,830	39,323,264
Other liabilities	980,237	233	–	–	211,936	10,863	–	1,203,269
Total financial liabilities	37,466,406	256	1,744,437	142,849	7,128,387	1,457,304	59,830	47,999,469
Non-financial liabilities	111,705	–	–	–	–	–	–	111,705
Liabilities held for sale	1,496,888	–	–	–	–	–	–	1,496,888
Total liabilities	39,074,999	256	1,744,437	142,849	7,128,387	1,457,304	59,830	49,608,062
Total equity (including NCI)	6,730,064	–	–	–	–	–	–	6,730,064
Total equity and liabilities	45,805,063	256	1,744,437	142,849	7,128,387	1,457,304	59,830	56,338,126
Net financial position of financial instruments	4,990,139	7,985	(502,057)	(4,390)	919,824	(385,003)	48,940	5,075,438
Credit commitments	5,000	–	96,503	35,611	–	–	–	137,114

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.2 Foreign currency risk (continued)

Company	NAD N$'000	ZMW N$'000	US$ N$'000	BWP N$'000	ZAR1 N$'000	Total N$'000
As at 30 June 2020						
ASSETS						
Cash and bank balances	13,663	1,180	182,392	190,622	–	387,857
Financial assets at fair value through profit or loss	491,652	–	–	–	225,301	716,953
Financial assets at fair value through other comprehensive income	–	–	–	–	683,151	683,151
Financial assets at amortised cost	–	–	–	294,848	–	294,848
Other assets	44,839	6,293	3,454	–	–	54,586
Total financial assets	550,154	7,473	185,846	485,470	908,452	2,137,395
Non-financial assets	1,866,102	–	–	–	–	1,866,102
Total assets	2,416,256	7,473	185,846	485,470	908,452	4,003,497
LIABILITIES						
Other borrowings	–	–	172,601	–	–	172,601
Debt securities in issue	2,095,617	–	–	190,738	–	2,286,355
Other liabilities	35,073	–	17,260	–	–	52,333
Total financial liabilities	2,130,690	–	189,861	190,738	–	2,511,289
Non-financial liabilities	5,902	–	–	–	–	5,902
Total liabilities	2,136,592	–	189,861	190,738	–	2,517,191
Total equity (including NCI)	1,486,306	–	–	–	–	1,486,306
Total equity and liabilities	3,622,898	–	189,861	190,738	–	4,003,497
Net financial position of financial instruments	(1,580,536)	7,473	(4,015)	294,732	908,452	(373,894)

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.2 Foreign currency risk (continued)

Group	NAD N$'000	ZMW N$'000	US$ N$'000	€ N$'000	BWP N$'000	ZAR[1] N$'000	Other N$'000	Total N$'000
As at 30 June 2019								
ASSETS								
Cash and balances with the central bank	1,089,394	147,964	–	–	335,258	–	–	1,572,616
Financial assets at fair value through profit or loss	2,024,867	–	–	–	12,321	–	–	2,037,188
Financial assets at amortised cost	643,678	216,636	–	–	–	–	–	860,314
Financial assets at fair value through other comprehensive income	3,535,669	–	–	–	730,904	476,152	–	4,742,725
Due from other banks	2,986	–	910,411	33,514	592,608	72,789	111,735	1,724,043
Loans and advances to customers	31,816,441	426,966	351,884	–	5,452,348	–	1,944	38,049,583
Other assets	255,261	43,285	–	–	113,837	357	–	412,740
Total financial assets	39,368,296	834,851	1,262,295	33,514	7,237,276	549,298	113,679	49,399,209
Non-financial assets	1,278,746	–	–	–	–	–	–	1,278,746
Total assets	40,647,042	834,851	1,262,295	33,514	7,237,276	549,298	113,679	50,677,955
LIABILITIES								
Due to other banks	72,623	33,029	140,047	–	4	–	–	245,703
Other borrowings	55,000	–	141,726	–	–	799,646	–	996,372
Debt securities in issue	4,176,819	–	–	–	328,598	1,165,557	–	5,670,974
Deposits	28,909,789	705,583	939,364	85,479	6,317,755	20,831	5,924	36,984,725
Other liabilities	457,261	27,109	–	–	82,162	5,959	–	572,491
Total financial liabilities	33,671,492	765,721	1,221,137	85,479	6,728,519	1,991,993	5,924	44,470,265
Non-financial liabilities	46,912	–	–	–	–	–	–	46,912
Total liabilities	33,718,404	765,721	1,221,137	85,479	6,728,519	1,991,993	5,924	44,517,177
Total equity (including NCI)	6,160,778	–	–	–	–	–	–	6,160,778
Total equity and liabilities	39,879,182	765,721	1,221,137	85,479	6,728,519	1,991,993	5,924	50,677,955
Net financial position of financial instruments	5,696,804	69,130	41,158	(51,965)	508,757	(1,442,695)	107,755	4,928,944
Credit commitments	–	–	106,049	5,303	–	18,337	–	129,689

[1] *The Namibian dollar is pegged to the South African rand and is therefore not exposed to currency risk.*

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.2 Foreign currency risk (continued)

Company	NAD N$'000	ZMW N$'000	US$ N$'000	BWP N$'000	ZAR[1] N$'000	Total N$'000
As at 30 June 2019						
ASSETS						
Cash and bank balances	328,980	–	266,909	68,006	–	663,895
Financial assets at fair value through profit or loss	428,092	–	–	–	–	428,092
Financial assets at fair value through other comprehensive income	–	–	–	–	476,153	476,153
Financial assets at amortised cost	–	121,030	–	134,620	–	255,650
Other assets	44,937	16,072	–	–	–	61,009
Total financial assets	802,009	137,102	266,909	202,626	476,153	1,884,799
Non-financial assets	1,739,573	–	–	–	–	1,739,573
Total assets	2,541,582	137,102	266,909	202,626	476,153	3,624,372
LIABILITIES						
Other borrowings	–	–	141,726	–	–	141,726
Debt securities in issue	1,595,772	–	–	173,957	–	1,769,729
Other liabilities	44,162	–	–	–	–	44,162
Total financial liabilities	1,639,934	–	141,726	173,957	–	1,955,617
Non-financial liabilities	485	–	–	–	–	485
Total liabilities	1,640,419	–	141,726	173,957	–	1,956,102
Total equity (including NCI)	1,668,270	–	–	–	–	1,668,270
Total equity and liabilities	3,308,689	–	141,726	173,957	–	3,624,372
Net financial position of financial instruments	(837,925)	137,102	125,183	28,669	476,153	(70,818)

[1] *The Namibian dollar is pegged to the South African rand and is therefore not exposed to currency risk.*

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.2 Foreign currency risk (continued)

The following exchange rates (number of units of Namibian dollar per unit of foreign currency) were used on conversion of foreign currency monetary items at the reporting date:

	2020	2019
USD	**17.26**	14.17
GBP	**21.23**	17.99
EUR	**19.40**	16.12
ZAR	**1.00**	1.00
ZMW	**0.95**	1.10
BWP	**1.46**	1.33

	Group		Company	
	Effect on profit for the year		Effect on profit for the year	
The following is a sensitivity analysis, monitored on the following major currencies of non-equity instruments, had a 5% change arisen on the various currencies:	**2020 N$'000**	**2019 N$'000**	**2020 N$'000**	**2019 N$'000**
US dollar/Namibian dollar	**(25,102)**	1,661	**(201)**	3,154
– Foreign currency financial assets	**62,119**	35,581	**9,292**	9,095
– Foreign currency financial liabilities	**(87,221)**	(33,920)	**(9,493)**	(5,941)
Euro/Namibian dollar	**(219)**	2,001	**–**	–
– Foreign currency financial assets	**6,923**	4,601	**–**	–
– Foreign currency financial liabilities	**(7,142)**	(2,600)	**–**	–
Botswana pula/Namibian dollar	**47,992**	25,438	**14,738**	1,433
– Foreign currency financial assets	**404,411**	361,864	**24,274**	10,131
– Foreign currency financial liabilities	**(356,419)**	(336,426)	**(9,536)**	(8,698)

3.3.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored monthly.

Assets and liabilities are classified as interest sensitive if the interest rate is floating (classified in the 'up to 1 month' bucket), or if the interest rate applied to the outstanding principal balance fluctuates contractually during its lifespan (classified at the earliest of reprise or maturity). The key assumption made is that when an asset or liability matures within a certain bucket, the principal amount will be reprised. If an asset matures the proceeds are reinvested and when any liability matures the liability is replaced with new funding. Balances classified as 'non-interest sensitive' are not affected by changes in interest rates, e.g. statutory cash balances with the Bank of Namibia, which carries no interest. The balances included in the buckets are therefore exposed to both cash flow risk (to the extent that interest rates are floating) and fair value risk (to the extent that interest rates are fixed until reprised). This is in the manner consistent with information communicated to key management.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.3 Interest rate risk (continued)

The table below summarises the Group's exposure to interest rate risks. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates:

(i) Interest rate risk analysis

Group	**Up to 1 month N$'000**	**1–3 months N$'000**	**3–12 months N$'000**	**More than 1 year N$'000**	**Non-interest sensitive N$'000**	**Total N$'000**
As at 30 June 2020						
ASSETS						
Cash and balances with the central bank	(25,904)	–	–	–	935,021	909,117
Financial assets at fair value through profit or loss	2,298,405				15,928	2,314,333
Financial assets at amortised cost	–	–	–	723,596	(10,839)	712,757
Financial assets at fair value through other comprehensive income	1,041,648	1,039,166	2,878,773	810,054	3,992	5,773,633
Due from other banks	2,996,527	–	–	–	–	2,996,527
Loans and advances to customers	32,768,322	7,675	94,338	5,793,227	1,415,060	40,078,622
Other assets	54,100	–	–	–	235,818	289,918
Total financial assets	39,133,098	1,046,841	2,973,111	7,326,877	2,594,980	53,074,907
Non-financial assets	–	–	–	–	1,745,825	1,745,825
Assets held for sale	–	–	–	–	1,517,394	1,517,394
Total assets	39,133,098	1,046,841	2,973,111	7,326,877	5,858,199	56,338,126
LIABILITIES						
Due to other banks	969,143	–	–	–	–	969,143
Other borrowings	–	861,502	–	–	–	861,502
Debt securities in issue	–	2,719,563	431,917	1,497,852	992,959	5,642,291
Deposits	19,776,026	4,211,006	12,068,431	3,267,801	–	39,323,264
Other liabilities	10,863	–	–	–	1,192,406	1,203,269
Total financial liabilities	20,756,032	7,792,071	12,500,348	4,765,653	2,185,365	47,999,469
Total non-financial liabilities	–	–	–	–	111,705	111,705
Liabilities held for sale	–	–	–	–	1,496,888	1,496,888
Total liabilities	20,756,032	7,792,071	12,500,348	4,765,653	3,793,958	49,608,062
Total equity (including NCI)	–	–	–	–	6,730,064	6,730,064
Total equity and liabilities	20,756,032	7,792,071	12,500,348	4,765,653	10,524,022	56,338,126
Interest sensitivity gap (financial instruments)	18,377,066	(6,745,230)	(9,527,237)	2,561,224	409,615	5,075,438
Cumulative interest sensitivity gap (financial instruments)	18,377,066	11,631,836	2,104,599	4,665,823	5,075,438	
As at 30 June 2019						
Interest sensitivity gap (financial instruments)	19,407,932	(5,343,036)	(7,493,730)	(3,088,906)	1,446,684	4,928,944
Cumulative interest sensitivity gap (financial instruments)	19,407,932	14,064,896	6,571,166	3,482,260	4,928,944	

The interest rate sensitivity gap is determined based on methodology applied when reviewing interest rate risk. The interest rate sensitivity gap is measured and monitored at the ALCO monthly.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.3 Interest rate risk (continued)

(ii) Interest rate sensitivity analysis

An interest sensitivity analysis shows how net interest income will perform under a variety of scenarios. The sensitivities below measure the effect of overall changes in interest rates on profit or loss (net interest income) as defined by the banks' interest rate modelling tool. The extent of the shock (50, 100 or 200 basis points) is applied to all interest rates in the system and the effects of these shocks are detailed below.

	Group		Company	
	2020 N$'000	**2019 N$'000**	**2020 N$'000**	**2019 N$'000**
The following interest rate sensitivity is based on the effect of changes to the interest rate over a 12-month period on net interest income:				
50 basis points increase	**77,152**	60,674	**(5,398)**	(2,287)
– Increase in interest income	**236,544**	243,507	**5,528**	5,327
– Increase in interest expense	**(159,392)**	(182,833)	**(10,926)**	(7,614)
50 basis points decrease	**(75,696)**	(49,635)	**5,398**	2,287
– Decrease in interest income	**(230,755)**	(229,480)	**(5,528)**	(5,327)
– Decrease in interest expense	**155,059**	179,845	**10,926**	7,614
100 basis points increase	**146,602**	120,275	**(10,797)**	(4,575)
– Increase in interest income	**473,532**	487,530	**11,055**	10,654
– Increase in interest expense	**(326,930)**	(367,255)	**(21,852)**	(15,228)
100 basis points decrease	**(148,722)**	(100,562)	**10,797**	4,575
– Decrease in interest income	**(457,218)**	(458,354)	**(11,055)**	(10,654)
– Decrease in interest expense	**308,496**	357,792	**21,852**	15,228
200 basis points increase	**273,872**	239,951	**(21,594)**	(9,149)
– Increase in interest income	**948,947**	977,341	**22,111**	21,307
– Increase in interest expense	**(675,074)**	(737,390)	**(43,704)**	(30,457)
200 basis points decrease	**(327,152)**	(238,777)	**21,594**	9,149
– Decrease in interest income	**(909,144)**	(915,330)	**(22,111)**	(21,307)
– Decrease in interest expense	**581,991**	676,553	**43,704**	30,457

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.4 Price risk

The following fair value financial instruments expose the Group to price risk: derivative financial instruments, treasury bills, government stock and unit trust investments measured at fair value through profit or loss and equity securities measured at fair value through other comprehensive income. The Group generally does not undertake equity exposure. The exposure arose due to specific circumstances and are managed individually.

		Group	
	Sensitivity analysis	**2020 N$'000**	**2019 N$'000**
(i)	*Investment securities*		
	The following is a sensitivity analysis showing the increase/(decrease) in the fair value of equity securities had the following changes arisen on the significant inputs:		
	10 % increase in share price (effect on other comprehensive income)	**2,214**	5,259
	10 % decrease in share price (effect on other comprehensive income)	**(2,214)**	(5,259)
(ii)	*Derivative financial instruments*		
	The following is a sensitivity analysis showing the increase/(decrease) in the fair value of derivative instruments had the following changes arisen on the significant inputs:		
	100 basis points increase in discount rate (effect on profit or loss)	**296**	285
	100 basis points decrease in discount rate (effect on profit or loss)	**(296)**	(285)
(iii)	*Financial assets at fair value*		
	The following is a sensitivity analysis showing the increase/(decrease) in the fair value of treasury bills had the following changes arisen on the significant inputs:		
	100 basis points increase in discount rate (effect on profit or loss)	**(17,661)**	(12,998)
	100 basis points decrease in discount rate (effect on profit or loss)	**17,868**	13,134
	The following is a sensitivity analysis showing the increase/(decrease) in the fair value of government stock had the following changes arisen on the significant inputs:		
	100 basis points increase in discount rate (effect on profit or loss)	**(16,564)**	(5,407)
	100 basis points decrease in discount rate (effect on profit or loss)	**17,800**	12,564

3.3.5 Market risk capital charge

The following capital charges have been assigned to the components of market risk for the banking group, as defined in BID 5 – 'Determination on capital adequacy':

	Capital charges	
	2020 N$'000	**2019 N$'000**
Interest rate risk	**54,726**	45,018
Foreign exchange risk	**8,725**	3,861

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn.

Liquidity risk is inherent in the Group's business endeavours and represents the ability of the Group to fund increases in assets and meet its financial obligations in a timely manner as they come due without incurring excessive costs, while complying with all statutory and regulatory requirements. The banks are the largest contributors to the Group's liquidity risk. The liquidity risk framework and Contingency Funding Plan ("CFP") sets out the minimum liquidity risk management requirements for the banks, and explains the low-level internal control processes. Under the policy, the banks are required to manage current and future liquidity positions in a prudent manner. This framework formalises the liquidity risk management processes of the banks, the goal of which is to:

- Maintain liquidity risk at a manageable level through assessment and monitoring
- Assess and advise against any permanent or temporary adverse changes to the liquidity position of the banks
- Set and monitor limits for funding mix, investment products and client exposures
- Monitor all applicable financial and statutory ratios
- Identify those liquidity triggers that may entail the activation of the CFP

The framework sets out rules to effectively control liquidity risk within the risk-return parameters dictated by the board of directors' risk appetite. The banks also, from time to time, conduct external-assisted CFP testing to evaluate the effectiveness thereof, while also continuously enhancing the risk management processes.

The framework aims to protect depositors, creditors, shareholders and other stakeholders of the banks by establishing rules and directions for identifying and managing the resolution of possible serious liquidity problems.

Asset liquidity risk represents the availability of sufficient assets in liquid form to meet pressing obligations. In situations where liquid assets on hand could be utilised to earn a higher return instead of paying current obligations, the opportunity cost also plays a role (i.e. potential higher return less the cost of obtaining replacement liquidity). Liquidity management must attempt to match the most appropriate available liquidity to the most appropriate maturing liabilities.

Funding liquidity risk relates to an enterprise's capability to generate funding at short notice at reasonable expense to meet pressing liquidity requirements.

The Group's liquidity management process is outlined in the Group liquidity risk framework which includes, inter alia, the Group's funding strategy. Procedures, as set out in this policy, include the:

- Daily monitoring of liquid assets
- Proactive identification of liquidity requirements and maturing assets
- Liquid asset minimum limit
- Proactive identification of short, medium and long-term liquidity requirements
- Relationship management with other financial institutions

In general the banks do not engage in complex activities or structures and therefore it is considered unnecessary to employ sophisticated and expensive models when determining liquidity needs under various scenarios. A basic but thorough forward-looking analysis is conducted in the day-to-day, as well as monthly analysis of liquidity positions, needs and risks. Limits and rules stipulated in the liquidity risk management policy and by ALCO form the basis for daily quotes on deposits to ensure that an optimal mix and concentrations are maintained.

As part of the banks' strategy, the banks continuously focuses on diversifying their funding sources and reducing their reliance on large depositors, which is a common occurrence in the southern African financial markets. That said, the banks utilise a broad range of deposit and funding products to attract all spheres of clients and has strong market share representation in all categories.

Refer to note 25 for other borrowings obtained during the year and, note 26 for the redemption and additions to debt securities.

The banks must at all times hold an adequate liquid asset surplus which:

- Includes a buffer portion
- Is additional to credit lines
- Is adequate to cater for unexpected outflows
- Is simultaneously limiting the effect this surplus has on interest margins

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

Liquidity risk analysis

The table below presents the cash flows payable by the Group by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows, hence it does not reconcile to the values reflected on the statement of financial position:

	Contractual undiscounted cash flows					
Group	Call to 1 month N$'000	1–3 months N$'000	3–12 months N$'000	1–5 years N$'000	Over 5 years N$'000	Total N$'000
As at 30 June 2020						
FINANCIAL LIABILITIES						
Due to other banks	969,143	–	–	–	–	969,143
Other borrowings	–	172,601	253,558	376,052	62,571	864,782
Debt securities in issue	8,571	224,283	1,297,477	3,523,935	3,007,301	8,061,567
Deposits	19,309,996	4,311,331	12,925,567	2,145,600	1,195,777	39,888,271
Other liabilities	585,092	133,618	95,249	295,019	94,291	1,203,269
Total liabilities (contractual maturity dates)	20,872,802	4,841,833	14,571,851	6,340,606	4,359,940	50,987,032
Commitments	4,312,418	–	–	–	–	4,312,418
Loan commitments	2,757,157	–	–	–	–	2,757,157
Liabilities under guarantees	1,345,544	–	–	–	–	1,345,544
Letters of credit	209,717	–	–	–	–	209,717

	Contractual undiscounted cash flows					
Company	Call to 1 month N$'000	1–3 months N$'000	3–12 months N$'000	1–5 years N$'000	Over 5 years N$'000	Total N$'000
As at 30 June 2020						
FINANCIAL LIABILITIES						
Other borrowings	–	172,601	–	–	–	172,601
Debt securities in issue	2,986	28,217	493,608	1,208,513	1,194,358	2,927,682
Other liabilities	30,290	22,043	–	–	–	52,333
Total liabilities (contractual maturity dates)	33,276	222,861	493,608	1,208,513	1,194,358	3,152,616

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

Liquidity risk analysis (continued)

Group	Contractual undiscounted cash flows Call to 1 month N$'000	1–3 months N$'000	3–12 months N$'000	1 –5 years N$'000	Over 5 years N$'000	Total N$'000
As at 30 June 2019						
FINANCIAL LIABILITIES						
Due to other banks	245,703	–	–	–	–	245,703
Other borrowings	493	160,985	221,356	718,839	113,260	1,214,933
Debt securities in issue	14,465	214,365	1,073,487	3,610,438	2,798,509	7,711,264
Deposits	16,979,424	3,474,076	11,940,131	4,683,117	1,430,019	38,506,767
Other liabilities	571,162	–	608	9,355	–	581,125
Total liabilities (contractual maturity dates)	17,811,247	3,849,426	13,235,582	9,021,749	4,341,788	48,259,792
Commitments	3,210,160	–	–	–	–	3,210,160
Loan commitments	1,699,163	–	–	–	–	1,699,163
Liabilities under guarantees	1,280,854	–	–	–	–	1,280,854
Letters of credit	230,143	–	–	–	–	230,143

Company	Contractual undiscounted cash flows Call to 1 month N$'000	1–3 months N$'000	3–12 months N$'000	1–5 years N$'000	Over 5 years N$'000	Total N$'000
As at 30 June 2019						
FINANCIAL LIABILITIES						
Other borrowings	–	141,726	–	–	–	141,726
Debt securities in issue	8,880	19,804	74,187	1,377,545	1,086,996	2,567,412
Other liabilities	19,593	24,569	–	–	–	44,162
Total liabilities (contractual maturity dates)	28,473	186,099	74,187	1,377,545	1,086,996	2,753,300

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

Liquidity risk analysis (continued)

In terms of BID 18 – 'Public disclosures for banking institutions' the maturity breakdown of a banking institution's whole credit portfolio should be disclosed. This disclosure, for Capricorn Group, is detailed below:

	Contractual discounted cash flows						
Group	Carrying value N$'000	Call to 1 month N$'000	1–3 months N$'000	3–12 months N$'000	1–5 years N$'000	Over 5 years N$'000	Total N$'000
As at 30 June 2020							
ASSETS							
Cash and balances with the central bank	–	909,117	–	–	–	–	909,117
Financial assets at fair value through profit or loss	–	2,314,333	–	–	–	–	2,314,333
Gross financial assets at amortised cost	–	–	–	–	299,270	424,326	723,596
Financial assets at fair value through other comprehensive income	–	1,262,449	1,039,166	2,878,773	478,896	114,349	5,773,633
Due from other banks	–	2,996,527	–	–	–	–	2,996,527
Gross loans and advances to customers		6,111,946	95,863	647,554	12,896,254	21,393,497	41,145,114
Other assets	–	234,618	–	–	55,300	–	289,918
Non-financial instruments	1,745,825	–	–	–	–	–	1,745,825
Effective interest rate impact per IFRS 9	(126,577)	–	–	–	–	–	(126,577)
Impairment	(950,754)	–	–	–	–	–	(950,754)
Total assets	**668,494**	**13,828,990**	**1,135,029**	**3,526,327**	**13,729,720**	**21,932,172**	**54,820,732**
LIABILITIES							
Due to other banks	–	969,143	–	–	–	–	969,143
Other borrowings	–	–	172,601	221,228	415,679	51,994	861,502
Debt securities in issue	–	2,647	288,328	834,569	2,428,722	2,088,025	5,642,291
Deposits	–	19,776,026	4,311,331	11,968,106	2,370,387	897,414	39,323,264
Other liabilities	–	585,092	133,618	95,249	295,019	94,291	1,203,269
Non-financial instruments	111,705	–	–	–	–	–	111,705
Total liabilities	**111,705**	**21,332,908**	**4,905,878**	**13,119,152**	**5,509,807**	**3,131,724**	**48,111,174**
Net liquidity gap	**556,789**	**(7,503,918)**	**(3,770,849)**	**(9,592,825)**	**8,219,913**	**18,800,448**	**6,709,558**
Cumulative liquidity gap	**556,789**	**(6,947,129)**	**(10,717,978)**	**(20,310,803)**	**(12,090,890)**	**6,709,558**	

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

Liquidity risk analysis (continued)

Company	Carrying value N$'000	Call to 1 month N$'000	1–3 months N$'000	3–12 months N$'000	1–5 years N$'000	Over 5 years N$'000	Total N$'000
As at 30 June 2020							
ASSETS							
Cash and bank balances	–	387,857	–	–	–	–	387,857
Financial assets at fair value through profit or loss	–	716,953	–	–	–	–	716,953
Financial assets at fair value through other comprehensive income	–	683,151	–	–	–	–	683,151
Financial assets at amortised cost	–	–	–	–	–	294,848	294,848
Other assets	–	54,586	–	–	–	–	54,586
Non-financial instruments	1,866,102	–	–	–	–	–	1,866,102
Total assets	1,866,102	1,842,547	–	–	–	294,848	4,003,497
LIABILITIES							
Other borrowings	–	–	172,601	–	–	–	172,601
Debt securities in issue	–	2,647	20,512	400,000	863,196	1,000,000	2,286,355
Other liabilities	–	30,290	22,043	–	–	–	52,333
Non-financial instruments	5,902	–	–	–	–	–	5,902
Total liabilities	5,902	32,936	215,156	400,000	863,196	1,000,000	2,517,191
Net liquidity gap	1,860,200	1,809,610	(215,156)	(400,000)	(863,196)	(705,152)	1,486,306
Cumulative liquidity gap	1,860,200	3,669,810	3,454,654	3,054,654	2,191,458	1,486,306	

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

Liquidity risk analysis (continued)

Group	Carrying value N$'000	Call to 1 month N$'000	1–3 months N$'000	3–12 months N$'000	1–5 years N$'000	Over 5 years N$'000	Total N$'000
		Contractual discounted cash flows					
As at 30 June 2019							
ASSETS							
Cash and balances with the central bank	–	1,572,616	–	–	–	–	1,572,616
Financial assets at fair value through profit or loss	–	2,037,188	–	–	–	–	2,037,188
Financial assets at amortised cost	–	–	5,481	310,259	54,982	526,465	897,187
Financial assets at fair value through other comprehensive income	–	1,275,831	609,381	2,357,279	499,416	818	4,742,725
Due from other banks	–	1,724,043	–	–	–	–	1,724,043
Gross loans and advances to customers	–	5,704,097	125,148	503,542	11,219,831	21,393,497	38,946,115
Other assets	–	407,195	29	328	5,188	–	412,740
Non-financial instruments	1,278,746	–	–	–	–	–	1,278,746
Effective interest rate impact	(133,013)	–	–	–	–	–	(133,013)
Impairment	(800,392)	–	–	–	–	–	(800,392)
Total assets	345,341	12,720,970	740,039	3,171,408	11,779,417	21,920,780	50,677,955
LIABILITIES							
Due to other banks	–	245,703	–	–	–	–	245,703
Other borrowings	–	–	141,726	219,267	574,271	61,108	996,372
Debt securities in issue	–	–	138,202	583,349	3,241,411	1,708,012	5,670,974
Deposits	–	16,784,464	3,496,477	11,515,986	4,235,247	952,551	36,984,725
Other liabilities	–	563,249	–	608	8,634	–	572,491
Non-financial instruments	46,912	–	–	–	–	–	46,912
Total liabilities	46,912	17,593,416	3,776,405	12,319,210	8,059,563	2,721,671	44,517,177
Net liquidity gap	298,429	(4,872,446)	(3,036,366)	(9,147,802)	3,719,854	19,199,109	6,160,778
Cumulative liquidity gap	298,429	(4,574,017)	(7,610,383)	(16,758,185)	(13,038,331)	6,160,778	

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

Liquidity risk analysis (continued)

Company	Carrying value N$'000	Call to 1 month N$'000	1–3 months N$'000	3–12 months N$'000	1–5 years N$'000	Over 5 years N$'000	Total N$'000
As at 30 June 2019							
ASSETS							
Cash and balances with the central bank	–	663,895	–	–	–	–	663,895
Financial assets at fair value through profit or loss	–	428,092	–	–	–	–	428,092
Financial assets at fair value through other comprehensive income	–	476,153	–	–	–	–	476,153
Financial assets at amortised cost	–	–	–	–	–	255,650	255,650
Other assets	–	61,009	–	–	–	–	61,009
Non-financial instruments	1,739,573	–	–	–	–	–	1,739,573
Total assets	1,739,573	1,629,149	–	–	–	255,650	3,624,372
LIABILITIES							
Other borrowings	–	–	141,726	–	–	–	141,726
Debt securities in issue	–	–	24,729	–	845,000	900,000	1,769,729
Other liabilities	–	19,593	24,569	–	–	–	44,162
Non-financial instruments	485	–	–	–	–	–	485
Total liabilities	485	19,593	191,024	–	845,000	900,000	1,956,102
Net liquidity gap	1,739,088	1,609,556	(191,024)	–	(845,000)	(644,350)	1,668,270
Cumulative liquidity gap	1,739,088	3,348,644	3,157,620	3,157,620	2,312,620	1,668,270	

The table above represents the Group's maturity mismatch between assets and liabilities based on contractual maturities, which represents a worst-case scenario and is therefore not representative of business as usual. Policies and procedures are in place to mitigate liquidity risk, which is detailed in the narrative above, as well as the risk and compliance report. Due to the composition of the liquidity market in Namibia, a negative maturity mismatch between assets and liabilities is an industry norm.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities

(a) Fair value estimation

The Group is presumed to be a going concern and the fair value methodology is therefore appropriate. Fair value is the current price to purchase an asset or to transfer a liability. Such a transaction is characterised by an arm's length and orderly transaction in a free market (neither party is compelled to act), between hypothetical willing, able and well-informed market participants. In addition, the fair value methodology is utilised to accurately reflect the current market conditions and the appropriate market price of such a transaction on the reporting date.

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives, trading and available-for-sale securities) is based on quoted market prices at the reporting date. The active market should be characterised by sufficient supply and demand by market participants, supported by adequate frequency and volumes to accurately approximate the true market price of such a transaction on an ongoing basis. The quoted market price used for financial assets held by the Group is the price within the current bid-ask price, which is the most representative of fair value.

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques to approximate the fair value. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. These valuation techniques include quoted market prices or dealer quotes for similar instruments in active and inactive markets, and discounted cash flow valuation techniques.

(i) Cash and balances with the central bank

Due to its short-term nature, the carrying amount approximates the fair value of these financial assets.

(ii) Derivative financial instruments (included in other assets/liabilities)

Derivative financial instruments are classified as fair value through profit or loss using valuation techniques supported by observable market prices or rates (exchange traded). Over-the-counter ("OTC") transactions are also measured at fair value based on the following valuation techniques:

- Forward contracts are valued based on the daily mark-to-market value of the forward contract. The market rates are obtained from the Thompson Reuters foreign currency rate platform. Spot foreign currency transactions not yet matured are marked-to-market based on end of trading day quoted Thompson Reuters market rates.
- Interest rate swaps are valued by discounting the expected future fixed and floating interest rate cash flow streams with the applicable South African money market yield curves. The future fixed rate cash flows are based on the terms of the contractual agreements, while the floating rate cash flows are approximated using the estimated forward rate yield curve in line with contractual agreements.
- Option contract values are determined using the Black-Scholes pricing model, utilising real-time market data on the required inputs.

(iii) Financial assets at fair value through profit or loss

Treasury bills

Treasury bills are measured at fair value through other comprehensive income based on the discounted valuation technique using quoted market prices and rates.

Government stock

Government stock and other bonds guaranteed by the Namibian, South African or Botswana governments are measured at fair value through other comprehensive income based on the discounted valuation technique using quoted market prices. The Bond Exchange of South Africa bond pricing model is utilised to determine the fair value.

Unit trust investments

The fair value of unit trust investments is determined with reference to the daily published market prices.

Money market investments

For money market investments, the carrying value approximates its fair value.

Other debt securities

Repo investments

Repo investments are designated at fair value using discounted valuation techniques and available dealer quotes for similar instruments.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

(a) Fair value estimation (continued)

(iii) Financial assets at fair value through profit or loss (continued)

Corporate bonds

Corporate bonds guaranteed by the respective corporates are measured at fair value through other comprehensive income based on the discounted valuation technique using quoted market prices.

(iv) Financial assets at amortised cost

Treasury bills

Treasury bills, without the intention to trade, are classified as held to maturity and recognised at amortised costs. The fair value is determined for disclosure purposes based on the discounted valuation technique using quoted market prices and rates.

Government stock

Government stock and other bonds guaranteed by either the Namibian or South African governments, without the intention to trade, are classified as held to maturity and recognised at amortised cost. The fair value is determined for disclosure purposes based on the discounted valuation technique using quoted market prices. The Bond Exchange of South Africa bond pricing model is utilised to determine the fair value.

(v) Investment securities

Listed

For listed investment securities, the fair value is derived by using stock market prices, adjusted for any restrictions on its tradability.

(vi) Due to and from other banks

Amounts due to and from other banks include interbank placements. The carrying amount of overnight deposits represents its fair value, as it is short-term and callable on demand.

(vii) Loans and advances to customers

The loans and advances to customers are recognised at amortised cost. The fair value is determined for disclosure purposes by discounting the future expected cash flows using observable market inputs, such as the prime rate, as appropriate. For short maturity loans and advances the carrying value approximates the fair value. Unobservable market inputs are developed using the best information available that market participants would use when pricing the loan. The credit risk will be approximated by the carrying values of defaulted and impaired accounts. Refer to note 3.5(b) for the disclosure of the fair value of loans and advances.

(viii) Other assets and liabilities

The nominal values less impairment of other assets and liabilities are assumed to approximate their fair value, due to the short-term nature of these assets and liabilities.

(ix) Other borrowings

Other borrowings are recognised at amortised cost. The fair value is determined for disclosure purposes by discounting the future expected cash flows using observable market inputs, such as the JIBAR money market rate, as appropriate. Refer to note 3.5(b) for the disclosure of the fair value of other borrowings.

(x) Debt securities in issue

Financial instruments included in this category include senior debt, callable bonds and preference shares issued. The fair value of issued debt securities for disclosure purposes is estimated by discounting the future contractual cash flows at the available market interest rate. Quoted prices for similar instruments are utilised in the event that active prices are not available. The fair values of these instruments were N$4.7 billion (2019: N$4.7 billion), refer to note 3.5(b). The fair value of the issued preference shares approximates the carrying value, due to the floating rate nature of the instruments. Refer to note 26.

(xi) Deposits

The carrying amount approximates the fair value of these financial liabilities, except for promissory notes and replica notes. The fair value of promissory notes and replica notes for disclosure purposes is estimated by discounting the future contractual cash flows at the available market interest rate. Quoted prices for similar instruments are utilised in the event that active prices are not available. The fair value of these instruments is N$657.0 million (2019: N$389.4 million), refer to note 3.5(b).

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

(a) Fair value estimation (continued)

(xii) Financial instruments not recorded on the statement of financial position

The estimated fair values of the financial instruments not recorded on the statement of financial position are based on market prices for similar facilities. When this information is not available, fair value is estimated using discounted cash flow analysis.

(b) Fair value hierarchy

IFRS specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like JIBAR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

Group	Level 1 N$'000	Level 2 N$'000	Level 3 N$'000	Total N$'000
As at 30 June 2020				
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
Unit trust and money market investments	953,980	1,360,353	–	2,314,333
Financial assets at fair value through other comprehensive income	2,479	5,769,641	1,513	5,773,633
Treasury bills	–	4,191,108	–	4,191,108
Government stock	–	799,427	–	799,427
Corporate bonds	–	40,764	–	40,764
Tradable instruments	–	683,151	–	683,151
Exchange traded funds	–	55,191	–	55,191
Investment securities – listed	2,479	–	–	2,479
Investment securities – unlisted	–	–	1,513	1,513
	956,459	7,129,994	1,513	8,087,966
Financial assets for which the fair value is disclosed				
Loans and advances to customers	–	–	40,194,893	40,194,893
Financial assets at amortised cost	–	721,039	–	721,039
Government stock	–	721,039	–	721,039
Director's valuation of investment in associates	94,767	947,924	–	1,042,691
	94,767	1,668,963	40,194,893	41,958,623
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments (included in other liabilities)	–	10,863	–	10,863
Financial liabilities for which the fair value is disclosed				
Other borrowings	–	–	869,065	869,065
Debt securities in issue	–	–	5,664,993	5,664,993
Five-year callable bonds	–	–	257,110	257,110
Senior debt	–	–	3,027,048	3,027,048
Preference shares	–	–	1,084,325	1,084,325
Debentures	–	–	1,296,510	1,296,510
Deposits	–	–	656,986	656,986
Promissory notes	–	–	656,986	656,986
	–	–	7,191,044	7,191,044

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

Group	Level 1 N$'000	Level 2 N$'000	Level 3 N$'000	Total N$'000
As at 30 June 2019				
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
Unit trust and money market investments	673,150	1,364,038	–	2,037,188
Derivative financial instruments (included in other assets)	–	357	–	357
Financial assets at fair value through other comprehensive income	1,768	4,739,565	1,392	4,742,725
Treasury bills	–	3,494,404	–	3,494,404
Government stock	–	728,511	–	728,511
Corporate bonds	–	40,498	–	40,498
Tradable instruments	–	476,152	–	476,152
Investment securities – listed	1,768	–	–	1,768
Investment securities – unlisted	–	–	1,392	1,392
	674,918	6,103,960	1,392	6,780,270
Financial assets for which the fair value is disclosed				
Loans and advances to customers	–	–	39,383,373	39,383,373
Financial assets at amortised cost	–	927,876	–	927,876
Treasury bills	–	237,760	–	237,760
Government stock	–	690,116	–	690,116
Director's valuation of investment in associates	88,737	727,501	–	816,238
Director's valuation of investment in joint arrangement	–	–	11,016	11,016
	88,737	1,655,377	39,394,389	41,138,503
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments (included in other liabilities)	–	5,959	–	5,959
Financial liabilities for which the fair value is disclosed				
Other borrowings	–	–	1,014,814	1,014,814
Debt securities in issue	–	–	4,738,778	4,738,778
Five-year callable bonds	–	–	248,057	248,057
Senior debt	–	–	3,452,449	3,452,449
Preference shares	–	–	530,883	530,883
Debentures	–	–	507,389	507,389
Deposits	–	–	389,416	389,416
Promissory notes	–	–	389,416	389,416
	–	–	6,143,008	6,143,008

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

Company	Level 1 N$'000	Level 2 N$'000	Level 3 N$'000	Total N$'000
As at 30 June 2020				
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
Unit trust and money market investments	225,300	491,653	–	716,953
Financial assets at fair value through other comprehensive income				
Tradable instruments	–	683,151	–	683,151
	225,300	1,174,804	–	1,400,104
Financial assets for which the fair value is disclosed				
Financial assets at amortised cost				
Preference shares	–	–	294,848	294,848
	–	–	294,848	294,848
Financial liabilities for which the fair value is disclosed				
Other borrowings	–	–	172,601	172,601
Debt securities in issue	–	–	2,286,355	2,286,355
Senior debt	–	–	190,738	190,738
Preference shares	–	–	1,084,325	1,084,325
Bonds and debentures	–	–	1,011,292	1,011,292
	–	–	2,458,956	2,458,956
As at 30 June 2019				
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
Unit trust and money market investments	48,438	379,654	–	428,092
Financial assets at fair value through other comprehensive income				
Tradable instruments	–	476,153	–	476,153
	48,438	855,807	–	904,245
Financial assets for which the fair value is disclosed				
Financial assets at amortised cost				
Preference shares	–	–	255,650	255,650
	–	–	255,650	255,650
Financial liabilities for which the fair value is disclosed				
Other borrowings	–	–	141,726	141,726
Debt securities in issue	–	–	1,769,729	1,769,729
Senior debt	–	–	174,035	174,035
Preference shares	–	–	1,088,095	1,088,095
Debentures	–	–	507,599	507,599
	–	–	1,911,455	1,911,455

No significant transfers between level 1, level 2 or level 3 fair value measurements occurred during the year under review.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

(c) Sensitivity analysis

The sensitivity analysis performed below are for financial instruments for which the fair value is disclosed. Sensitivity analysis performed on financial instruments recognised at fair value are included in note 3.3.4.

	Group	
	2020 N$'000	**2019 N$'000**
The following is a sensitivity analysis showing the increase/(decrease) in the fair value of loans and advances had the following changes arisen on the significant inputs:		
100 basis points increase in discount rate	**(1,267,612)**	(1,162,344)
100 basis points decrease in discount rate	**1,370,381**	1,549,895
100 basis points increase in earnings rate	**180,151**	197,669
100 basis points decrease in earnings rate	**(201,678)**	(209,117)
1 month increase in term to maturity	**(155,370)**	(124,190)
1 month decrease in term to maturity	**191,552**	128,068
The following is a sensitivity analysis showing the increase/(decrease) in the fair value of treasury bills at amortised cost had the following changes arisen on the significant inputs:		
100 basis points increase in discount rate	**–**	(934)
100 basis points decrease in discount rate	**–**	944
The following is a sensitivity analysis showing the increase/(decrease) in the fair value of government stock at amortised cost had the following changes arisen on the significant inputs:		
100 basis points increase in discount rate	**(34)**	(1,182)
100 basis points decrease in discount rate	**37**	857
The following is a sensitivity analysis showing the increase/(decrease) in the fair value of other borrowings had the following changes arisen on the significant inputs:		
100 basis points increase in discount rate	**(16,504)**	(71,847)
100 basis points decrease in discount rate	**7,340**	75,499
100 basis points increase in coupon rate	**(18,876)**	72,791
100 basis points decrease in coupon rate	**18,876**	(72,791)
The following is a sensitivity analysis showing the increase/(decrease) in the fair value of debt securities had the following changes arisen on the significant inputs:		
100 basis points increase in discount rate	**(81,482)**	(103,895)
100 basis points decrease in discount rate	**85,438**	109,176
100 basis points increase in coupon rate	**86,408**	106,442
100 basis points decrease in coupon rate	**(86,408)**	(106,442)
The following is a sensitivity analysis showing the increase/(decrease) in the fair value of promissory notes had the following changes arisen on the significant inputs:		
100 basis points increase in discount rate	**(2,579)**	(1,290)
100 basis points decrease in discount rate	**2,612**	1,727

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

(d) Details of level 2 and level 3 fair value instruments

	Valuation technique	Types of valuation inputs	Valuation inputs (ranges) 2020	2019
Financial assets measured at fair value				
Financial assets at fair value through profit or loss and at fair value through other comprehensive income				
Treasury bills	Income approach*	Note 1	BW: 4.2% – 4.6% BG: 1.0% – 1.5%	BW: 6.8 % – 7.9 % BG: 1.2 % – 1.5 %
Government stock	Income approach*	Note 1	BW & Entrepo: 5.1% – 10.4%	BW & Entrepo: 7.3 % – 9.9 %
Unit trust investments	Market approach**	Note 4	BW: 5.1% – 5.8%	BW: 7.1 % – 7.7 %
– OTC currency options	Income approach*	Note 1	EUR16.8 – 17.3 US$15.2 – 21.02	EUR16.3 – 17.1 US$13.6 – 17.6
Other debt securities				
– Corporate bonds	Income approach*	Note 1	BW: 5.8%	BW: 8.9 %
Financial assets for which the fair value is disclosed				
Loans and advances to customers	Income approach*			
– Discount rate		Note 1	BW: 7.75% BG: 5.8% Entrepo: 15.5%	BW: 10.5 % BG: 6.5 % CB: 12.0 % and 29.8 % Entrepo: 21.5 %
– Earnings rate		Note 2	BW:4.0% – 16.6% BG: 3.8% – 32.0% Entrepo: 15.5% – 21.5%	BW: 6.3 % – 19.7 % BG: 4.5 % – 32.0 % CB: 0.0 % – 30.5 % Entrepo: 18.5 % – 21.5 %
– Term to maturity		Note 3	3 – 360 mth	3 – 360 mth
Financial assets at amortised cost				
Treasury bills	Income approach*	Note 1	N/A	BW: 7.9 % – 10.7 % CB: 13.6 % – 20.9 %
Government stock	Income approach*	Note 1	BW: 5.1% – 10.4%	BW: 7.5 % – 15.2 % CB: 16.0 % – 25.5 %

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

(d) Details of level 2 and level 3 fair value instruments (continued)

	Valuation technique	Types of valuation inputs	Valuation inputs (ranges) 2020	2019
Derivative financial instruments	Income approach*	Note 1	BW: 8.1% – 10.3%	BW: 7.7 % – 8.5 %
Financial liabilities for which the fair value is disclosed				
Other borrowings	Income approach*			
– Discount rate		Note 1	BW: 4.8% – 8.8% CG: 3.7%***	BW: 7.9 % – 10.7 % CG: 4.9 % ***
– Earnings rate		Note 1	BW: 4.6% – 12.4% CG: 3.7%***	BW: 7.5 % – 15.2 % CG: 4.9 % ***
Debt securities in issue				
Five-year callable bonds	Income approach*	Note 1	BW: 6.1% BG: 2.6%	BW: 8.3 % BG: 5.8 %
Senior debt – unsecured	Income approach*	Note 1	BW: 5.4% – 6.6% BG: 6.5%	BW: 5.2 % – 9.2 % BG: 3.2 % – 7.8 %
Debentures	Income approach*	Note 1	N/A	BW: 7.2 % – 7.8 %
Deposits				
Promissory notes	Income approach*	Note 1	BW: 3.9% – 4.3%	BW: 7.3 % – 7.9 %

For the relationship of observable inputs to fair value refer to note 3.3.4 for items measured at fair value and note 3.5 c) for items disclosed at fair value.

** Present value of expected future cash flows.*
*** The fair value is determined with reference to the daily published market prices.*
**** Loan denominated in US dollar*
Note 1: Observable interest rates and yield curves observable at commonly quoted intervals.
Note 2: Contractual interest rates per transaction observable on the banking system.
Note 3: Contractual maturities per transaction observable on the banking system.
Note 4: Valuations are performed per fund based on the net asset value of the underlying assets.
BW: Bank Windhoek Ltd
BG: Bank Gaborone Ltd
CB: Cavmont Bank Ltd
CG: Capricorn Group

3.6 Insurance risk

The Group assumes insurance risk by issuing insurance contracts, under which the Group agrees to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) affecting the policyholder occurs. Insurance risk includes mortality and morbidity risk.

For accounting purposes insurance risk is defined as risk other than financial risk. Contracts issued by the Group may include both insurance and financial risk; contracts with significant insurance are classified as insurance contracts, while contracts with no or insignificant insurance risk are classified as investment contracts.

The Group effectively manages its insurance risk through the following mechanisms:

- The maintenance and use of sophisticated management information systems, which provide current data on the risks to which the business is exposed and the quantification of such risks.
- Guidelines for concluding insurance contracts and assuming insurance risks. These include underwriting principles and product pricing procedures.
- The mix of assets, which is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to ensure that there are sufficient interest bearing assets to match the guaranteed portion of liabilities.

All insurance contracts issued by the Group are entered into with individuals. These are low-value high-volume contracts thus limiting single-party exposure.

The policyholder liability was calculated with the following assumptions:

- A discount rate of 4.75% (2019: 6%)
- A tax assumption of 40% (2019: 40%) of investment income being taxed at a rate of 32% (2019: 32%)
- Expense inflation of 4.5% (2019: 6%)
- The incurred-but-not-reported (IBNR) liability was determined using the Bornhuetter-Fergusson method

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.7 Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are to:

- Comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate
- Safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders
- Maintain a strong capital base to support the development of its business

Capital management for the banking group

The Bank of Namibia requires each bank or banking group to maintain the following capital adequacy ratios:

- Tier 1 capital to total assets, as reported in the statutory return, at a minimum of 6%, referred to as the leverage capital ratio
- Tier 1 capital to risk-weighted assets at a minimum of 7%, referred to as Tier 1 risk-based capital ratio
- Total regulatory capital to risk-weighted assets at a minimum of 10%, referred to as total risk-based capital ratio

The Group's regulatory capital is divided into three tiers:

- Tier 1 capital: share capital (net of any book values of the treasury shares, if any), non-controlling interest arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital
- Tier 2 capital: qualifying subordinated loan capital and collective impairment allowances
- Tier 3 capital: includes short-term subordinated debt that may be used only to cover a portion of the banking institution's capital charges for market risk

The Bank of Namibia has adopted a standardised approach to Basel II, with risk-weighted assets being measured at three different levels, operational risk, market risk and credit risk.

During 2012, the Bank of Namibia introduced BID 24 – 'Consolidated supervision', which denotes consolidation rules only for the purposes of computing regulatory minimum capital requirements. These rules do not impact on accounting consolidation of banking groups, which is done in accordance with IFRS. Although regulatory consolidation may track the accounting consolidation, it is not identical because of a different approach that is prescribed or required for treatment of certain types of transactions and/or subsidiaries. According to the statutory framework, the Group entities are treated as follows in the Capricorn Group:

Subsidiaries	Consolidated supervision approach	Accounting consolidation approach
Bank Windhoek Ltd	Full consolidation	Full consolidation
Namib Bou (Pty) Ltd	Deduction approach	Full consolidation
Capricorn Unit Trust Management Company Ltd	Deduction approach	Full consolidation
Capricorn Asset Management (Pty) Ltd	Deduction approach	Full consolidation
Capricorn Investment Holdings (Botswana) Ltd ("CIHB")	Full consolidation	Full consolidation
Cavmont Capital Holdings Zambia Plc ("CCHZ")	Full consolidation	Full consolidation
Capricorn Capital (Pty) Ltd	Deduction approach	Full consolidation
Mukumbi Investments (Pty) Ltd	Deduction approach	Full consolidation
Entrepo Holdings (Pty) Ltd	Full consolidation	Full consolidation
Entrepo Finance (Pty) Ltd	Full consolidation	Full consolidation
Entrepo Life Ltd	Deduction approach	Full consolidation

Associates	Consolidated supervision approach	Accounting consolidation approach
Sanlam Namibia Holdings (Pty) Ltd	Deduction approach	Equity-accounted associates
Santam Namibia Ltd	Deduction approach	Equity-accounted associates
Paratus Namibia Holdings Ltd	Deduction approach	Equity-accounted associates
Paratus Group Holdings Ltd	Deduction approach	Equity-accounted associates

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

3. FINANCIAL RISK MANAGEMENT (continued)

3.7 Capital management (continued)

Deduction approach means deductions of 50 percent of the cost of investment in the affiliate is made from Tier 1 capital and 50% from Tier 2 capital.

The table below summarises the composition of regulatory capital and the ratios of Capricorn Group for the years ended 30 June, at consolidated supervision level. During these two years, the individual entities within the Group complied with all externally-imposed capital requirements to which they are subjected.

	Group	
	2020 N$'000	**2019 N$'000**
Tier 1 capital		
Share capital and premium	**760,667**	765,507
General banking reserves	**3,868,463**	3,843,797
Retained earnings	**2,188,674**	1,580,520
Minority interests	**214,424**	345,382
Subtotal	**7,032,228**	6,535,206
Deduct: 50% investments in Group entities		
Goodwill	**(101,489)**	(101,489)
50% investments in deconsolidated financial subsidiaries, significant minority and majority insurance entities and significant commercial entities	**(411,574)**	(298,837)
Net total Tier 1 capital	**6,519,165**	6,134,880
Tier 2 capital		
Subordinated debt	**826,161**	310,750
Five-year callable bonds	**433,535**	310,750
General provisions	**392,626**	–
Subtotal	**826,161**	310,750
Deduct: 50% investments in Group entities		
50% investments in deconsolidated financial subsidiaries, significant minority and majority insurance entities and significant commercial entities	**(371,874)**	(255,753)
Net total Tier 2 capital	**454,287**	54,997
Net total Tier 3 capital	**(33,947)**	–
Total regulatory capital	**6,939,505**	6,189,877
Risk-weighted assets:		
Operational risk	**5,112,099**	4,866,635
Credit risk	**41,354,688**	37,205,932
Market risk	**654,509**	495,551
Total risk-weighted assets	**47,121,296**	42,568,118
The increase in risk-weighted assets during the year is mainly attributable to the increase in credit risk, which relates to the growth in loans and advances and the acquisition of Entrepo during the year under review.		
Capital adequacy ratios:		
Leverage capital ratio	**12.1%**	10.9%
Tier 1 risk-based capital ratio	**13.8%**	12.3%
Total risk-based capital ratio	**14.7%**	14.9%

In addition to the above minimum capital requirements, the Bank of Namibia requires the Group to perform an internal capital adequacy and assessment process ("ICAAP") in terms of Pillar II of Basel II, which has been documented and approved by the board. The process results in:

- The identification of all significant risk exposures to the banking group
- The quantification of risk appetites for the major risks identified
- Control measures to mitigate the major risks

Based on the ICAAP assessment performed on 30 November 2019, which includes a capital projection for the next five years, it is envisaged that the Group will be able to maintain its capital ratios and will not require additional capital.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans and advances

Estimates in assessing the portfolio impairment are dependent on the analysis of historical data relating to probability of default, emergence period and loss given default. Specific impairment is triggered for individual non-performing loans and special mention accounts. Non-performing loans comprise loans due and unpaid for longer than 90 days.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to notes 2.4 and 3.2.6 for more information on assumptions and judgements applied when determining the impairment of loans and advances.

(b) Fair value of financial instruments

The fair value of financial instruments requires the use of estimates and judgements. Refer to note 3.5 for methodology and assumptions applied.

(c) Post-employment benefits

The present value of the severance pay liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of the liability. The assumptions used in determining the net cost include the discount rate. The Group determined this discount rate based on the yield of South African government bonds. Other key assumptions are based on generally accepted demographic tables. Refer to note 30.

(d) Share-based payments

For share-based payment transactions among Group entities, in its separate or Group financial statements, the entity receiving the services shall measure the services received as either an equity-settled or a cash-settled share-based payment transaction by assessing:
- the nature of the awards granted
- its own rights and obligations

The amount recognised by the entity receiving the services may differ from the amount recognised by the consolidated Group or by another Group entity settling the share-based payment transaction.

The entity receiving the services shall measure the services received as an equity-settled share-based payment transaction when:
- The awards granted are its own equity instruments
- The entity has no obligation to settle the share-based payment transaction

In terms of the share scheme arrangements, the awards granted are Capricorn Group shares, thus the share schemes are treated as equity-settled.

IFRS 2 requires an entity to measure the fair value of the employee services received by reference to the fair value of the equity instruments granted. This fair value depends on a number of factors that are determined on an actuarial basis, at grant date, using a number of assumptions. Any changes in these assumptions will impact the expense and share-based compensation reserve created at grant date. For assumptions made in the valuation of share-based payments refer to note 33.

(e) Impairment of goodwill

The recoverable amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. The recoverable amount of the cash-generating units ("CGU") has been determined based on value-in-use calculations, being the net present value of the discounted cash flows of the CGU. Refer to note 22.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

(f) *Treatment of income and expenses*

Capricorn Group's operating model is that of a lender and provider of funding to banking entities in the Group. Consequently the finance costs paid and investment income received by Capricorn Group on its Group financing activities, are treated as revenue in the company and consolidated financial statements, similar to that of a banking entity, and disclosed as interest expense and interest income respectively.

(g) *Policyholder liability*

Policyholder benefit payments are generally fixed or relatively easy to estimate, thereby limiting the uncertainty as to the expected liability of a particular policy. The reinsurance terms of each policy are also known in advance and the allowance for reinsurance recoveries is readily ascertainable, although the timing of benefit payments must be estimated. The estimate of this timing is based on the probability that a policy will be in force and the probability of the claim arising in the future from the valuation date until the expiry of the term of the policy, modified for past experience.

For each policy the present value of the expected benefit payment is estimated based on the future surrender, mortality, retrenchment, medical and morbidity rates of policyholders, modified to reflect the recent claims experience of the Group. The assumptions used are generally best estimate assumptions with compulsory margins and, where appropriate, discretionary margins being provided to cater for uncertainty. The discount rate used to capitalise the policyholder benefit values is also based on current economic conditions but reflects the Group's asset mix with an allowance for mismatching risk.

(h) *Measurement of expected credit loss*

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 3.2.2.2., which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for the measurement of ECL
- Establishing the number and relative weightings of forward-looking scenarios for each type pf product/market and the associated ECL
- Establishing groups of similar financial assets for the purposes of measuring ECL

Detailed information about the judgements and estimates made by the Group in the above areas is set out in note 3.2.1.

(i) *Application of IFRS 16*

The application of IFRS 16 requires management to make judgements and estimates that affect the measurement of right-of-use assets and lease liabilities. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Assessing whether a contract contains a lease also requires judgment. Estimates are required to determine the appropriate discount rate used to measure lease liabilities.

(j) *Discontinued operation*

The discontinued operation is a subsidiary of the Group that has classified as held for sale. Profit or loss from discontinued operations comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal group(s) constituting the discontinued operation (see also note 44).

Non-current assets classified as held for sale are presented separately and measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. However, some held for sale assets such as financial assets or deferred tax assets, continue to be measured in accordance with the Group's relevant accounting policy for those assets. Once classified as held for sale, the assets are not subject to depreciation or amortisation.

Any profit or loss arising from the sale of a discontinued operation or its remeasurement to fair value less costs to sell is presented as part of a single line item, profit or loss from discontinued operations.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

5. NET INTEREST INCOME

	Group		Company	
	2020 N$'000	2019 N$'000	2020 N$'000	2019 N$'000
Interest and similar income				
Amortised cost				
Loans and advances	4,120,569	4,068,192	–	–
Cash and short-term funds	85,641	107,751	75,551	57,727
Financial assets at amortised cost	88,660	99,813	15,056	8,267
Government stock and other investments	88,660	99,813	–	–
Preference shares	–	–	15,056	8,267
Fair value				
Financial assets at fair value through other comprehensive income	327,961	271,977	–	–
Treasury bills	271,264	250,361	–	–
Government stock and other investments	56,697	21,616	–	–
Total interest and similar income	4,622,831	4,547,733	90,607	65,994
Interest and similar expenses				
Amortised cost				
Demand deposits	251,631	247,813	–	–
Term and notice deposits	786,963	723,884	–	–
Negotiable certificates of deposits	603,119	602,122	–	–
Cheque deposits	220,256	210,687	–	–
Debt securities in issue	437,813	426,934	139,583	96,531
Savings deposits	53,672	58,786	–	–
Deposits from banks and financial institutions	25,661	20,004	–	–
Other borrowings	85,256	140,202	6,390	30,227
Promissory notes	39,949	72,989	–	–
Other	16,332	10,566	–	146
Leases	21,280	–	–	–
Total interest and similar expenses	2,541,932	2,513,987	145,973	126,904
Net interest income	2,080,899	2,033,746	(55,366)	(60,910)

6. CREDIT IMPAIRMENT LOSSES

	Group 2020 N$'000	Group 2019 N$'000	Company 2020 N$'000	Company 2019 N$'000
Increase in credit impairment losses on loans and advances (note 17)	243,447	65,837	–	–
Increase in credit impairment losses on financial assets at amortised cost (note 14)	(10,726)	7,516	170,476	15,271
Amounts written off as uncollectible	78,702	61,546	–	–
Amounts recovered during the year	(7,052)	(11,201)	–	–
	304,371	123,698	170,476	15,271

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

7. NON-INTEREST INCOME

		Group 2020 N$'000	Group 2019 N$'000	Company 2020 N$'000	Company 2019 N$'000
7.1	**Fee and commission income**				
	Transaction and related fees	884,085	866,131		
	Cards and electronic channels	383,107	391,053		
	Transaction based fee income	431,458	382,983		
	Lending activities	69,520	78,535		
	Other charges	–	13,560		
	Commissions	33,979	37,389		
	Trust and fiduciary fees	8,850	11,178		
		926,914	914,698		
7.2	**Net trading income**				
	Net foreign exchange gains and losses	95,846	38,202	–	–
	Net gain from financial instruments at fair value	101,480	62,906	16,688	8,340
	Net investment income	–	5,272	–	–
		197,326	106,380	16,688	8,340
	Net foreign exchange gains and losses from trading assets includes gains and losses from spot and forward exchange contracts and translation of foreign currency assets and liabilities. Net gain from financial instruments at fair value includes the gains and losses from treasury bills, government stock and derivative financial instruments.				
7.3	**Other operating income**				
	Commission and insurance related income	3,875	3,049	3,875	2,328
	Dividend received	38,123	28,236	464,620	941,802
	Interest received	–	–	16,636	19,390
	Net foreign exchange gains and losses	–	–	(8,634)	(24,608)
	Support services rendered	310	364	48,752	46,054
	Other	469	830	2,922	1,362
		42,777	32,479	528,171	986,328
7.4	**Net insurance premium income**				
	Gross written premiums	185,795	192,430	–	–
	Change in unearned premium provision	(32,802)	(62,380)	–	–
		152,993	130,050	–	–
7.5	**Net insurance claims and benefits paid**				
	Gross insurance contract claims	(29,157)	(25,540)	–	–
	Transfer to provision for IBNR claims	(1,562)	(1,001)	–	–
		(30,719)	(26,541)	–	–
7.6	**Asset management and administration fees**				
	Asset management and administration fees	135,420	118,187	–	–
		135,420	118,187	–	–
	Total non-interest income	1,424,711	1,275,253	544,859	994,668
7.7	**Types of revenue from contracts with customers**				
	Fee and commission income	926,914	914,698	–	–
	Other operating income	4,185	3,413	52,627	48,382
	Asset management and administration fees	135,420	118,187	–	–
	Income other than from contracts with customers	358,192	238,955	492,232	946,286
	Total revenue	1,424,711	1,275,253	544,859	994,668

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

7. NON-INTEREST INCOME (continued)

		Group		Company	
		2020 N$'000	2019 N$'000	**2020 N$'000**	2019 N$'000
7.8	**Disaggregation of revenue from contracts with customers**				
(a)	***Over time***				
	Transaction and related fees	**69,520**	92,095	**–**	–
	Lending activities	**69,520**	78,535	**–**	–
	Other charges	**–**	13,560	**–**	–
	Commission and insurance related income	**3,875**	3,049	**3,875**	2,328
	Support services rendered	**310**	364	**48,752**	46,054
	Asset management and administration fees	**135,420**	118,187	**–**	–
		209,125	213,695	**52,627**	48,382
(b)	***At a specific point in time***				
	Transaction and related fees	**814,565**	774,036	**–**	–
	Cards and electronic channels	**383,107**	391,053	**–**	–
	Transaction based fee income	**431,458**	382,983	**–**	–
	Commissions	**33,979**	37,389	**–**	–
	Trust and fiduciary fees	**8,850**	11,178	**–**	–
		857,394	822,603	**–**	–
(c)	***Income other than from contracts with customers***	**358,192**	238,955	**492,232**	946,286
	Total	**1,424,711**	1,275,253	**544,859**	994,668

8. STAFF COSTS

	Group		Company	
	2020 N$'000	2019 N$'000	**2020 N$'000**	2019 N$'000
Salaries and bonuses	**1,004,575**	937,743	**77,615**	72,489
Share-based payment expense	**12,480**	11,802	**6,831**	5,081
Staff training costs	**16,180**	21,769	**676**	4,508
Pension costs – defined contribution plan	**56,444**	54,681	**2,040**	3,570
Severance pay liability (note 30)	**2,697**	2,267	**1,149**	–
	1,092,376	1,028,262	**88,311**	85,648

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

9. OPERATING EXPENSES

Expenses by nature

		Group		Company	
		2020 N$'000	**2019 N$'000**	**2020 N$'000**	**2019 N$'000**
9.1	**Normal operating expenses**				
	Advertising and marketing	**36,711**	38,323	**5,319**	5,125
	Amortisation of intangible assets (note 22)	**48,080**	33,414	**–**	–
	Asset management fees	**2,834**	2,516	**–**	–
	Auditor's remuneration	**–**	–	**–**	
	– Audit fees	**9,563**	8,327	**577**	665
	– Fees for other services	**1,058**	1,123	**300**	270
	Non-executive directors' emoluments	**9,459**	8,567	**5,452**	4,593
	Depreciation of property and equipment (note 23)	**128,967**	58,115	**–**	–
	Finance costs	**7,950**	–	**–**	–
	Impairment on investments	**–**	–	**–**	112,352
	Insurance costs	**16,112**	12,316	**–**	–
	Impairment loss on intangible assets	**18,205**	–		
	Motor vehicle costs	**2,786**	3,670	**–**	–
	Office expenses	**9,648**	5,931	**744**	300
	Operating lease rentals – immovable property	**3,535**	96,459	**–**	–
	Professional services	**55,361**	76,714	**10,300**	18,698
	Repairs and maintenance	**19,668**	38,109	**–**	–
	Security expenses	**18,543**	15,874	**–**	–
	Staff costs (note 8)	**1,092,376**	1,028,262	**88,311**	85,648
	Stamp duty	**17,577**	20,184	**1**	1,900
	Stationery and printing	**16,701**	13,657	**52**	22
	Subscription fees	**8,910**	10,391	**298**	220
	Technology costs	**138,145**	101,133	**–**	–
	Telephone, postage and courier costs	**15,421**	15,812	**31**	185
	Travelling	**9,414**	13,091	**2,281**	2,846
	Valuation fees	**10,426**	14,014	**–**	–
	Water and electricity	**25,247**	24,372	**–**	–
	Other expenses	**42,772**	59,806	**14,283**	4,588
		1,765,469	1,700,180	**127,949**	237,412
9.2	**Fee and commission expenses**				
	Association transaction fees	**114,560**	115,060	**–**	–
	Cash handling fees	**9,914**	12,515	**–**	–
	Commission	**10,934**	10,977	**–**	–
		135,408	138,552	**–**	–
	Total operating expenses	**1,900,877**	1,838,732	**127,949**	237,412

Research and development costs of N$129,566 (2019: N$1.2 million) are included in operating expenses above.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

10. SHARE OF ASSOCIATES' RESULTS AFTER TAX

The following represents Capricorn Group's share of the associates' after-tax results:

	Group		Company	
	2020 N$'000	**2019 N$'000**	**2020 N$'000**	**2019 N$'000**
Profit before taxation	**84,192**	84,289		
Taxation	**(20,481)**	(11,632)		
	63,711	72,657		

11. INCOME TAX EXPENSE

11.1 Normal tax

	Group		Company	
	2020 N$'000	**2019 N$'000**	**2020 N$'000**	**2019 N$'000**
Current tax	**352,850**	428,648	**–**	–
– current year	**352,850**	428,648	**–**	–
Deferred tax	**52,756**	(41,843)	**11,659**	(8,333)
– current year	**52,756**	(41,843)	**11,659**	(8,333)
Total normal tax	**405,606**	386,805	**11,659**	(8,333)
Income tax expense is attributable to:				
Profit from continuing operations				
Current tax	**352,850**	428,648	**–**	
– current year	**352,850**	428,648	**–**	–
Deferred tax	**1,945**	(40,898)	**11,659**	(8,333)
– current year	**1,945**	(40,898)	**11,659**	(8,333)
Total normal tax from continuing operations	**354,795**	387,750	**11,659**	(8,333)
Deferred tax	**50,811**	(945)	**–**	
– current year	**50,811**	(945)	**–**	–
Total normal tax from discontinued operations	**50,811**	(945)	**–**	
	405,606	386,805	**11,659**	(8,333)
Normal tax on other comprehensive income				
Current tax through other comprehensive income	**12,372**	–	**–**	–
– current year	**12,372**	–	**–**	–
Total income tax expense	**417,978**	386,805	**11,659**	(8,333)

11.2 Tax rate reconciliation

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:

	Group		Company	
	2020 N$'000	**2019 N$'000**	**2020 N$'000**	**2019 N$'000**
Profit from continuing operations before tax and share of associates' results after tax	**1,366,890**	1,350,245	**191,068**	680,625
Loss from discontinued operation before income tax expense	**(104,872)**	(20,798)	**–**	–
Other comprehensive income	**38,662**			
Tax at the applicable tax rate of 32% (2019: 32%)	**416,218**	425,423	**61,142**	217,800
Dividends received	**(122,207)**	(45,974)	**(148,678)**	(301,376)
Fair value adjustment on interest free staff loans and investments	**(7,274)**	2,713	**–**	–
Other non-taxable income	**(79,826)**	(76,389)	**(7,410)**	(5,412)
Non-deductible expenses	**72,566**	77,107	**41,449**	80,655
Derecognise previously recognised deferred tax asset	**68,593**	2,723	**–**	–
Unrecognised deferred tax asset	**63,834**	2,823	**63,834**	–
Expired assessed loss	**18,719**	5,798		
Utilised tax loss previously not recognised	**(78)**	–	**–**	–
Difference in tax rates	**(11,280)**	(7,419)	**–**	–
Other	**(1,287)**	–	**1,322**	–
Income tax expense	**417,978**	386,805	**11,659**	(8,333)
Effective tax rate	**32.1%**	29.1%	**6.1%**	(1.2%)

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

12. EARNINGS AND HEADLINE EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the Group's profit attributable to the equity holders of the parent entity for the year, by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the company and held as treasury shares.

Headline earnings per share is calculated by dividing the Group's profit for the year attributable to the equity holders of the parent entity after excluding identifiable remeasurements, net of tax, by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the company and held as treasury shares.

Group	2020 Gross N$'000	2020 Taxation N$'000	2020 Net N$'000
Earnings			
Profit from continuing operations for the year attributable to the equity holders of the parent entity			913,387
Headline adjustments	43,473	(114)	43,359
Loss on disposal of assets	1,781	(114)	1,667
Impairment loss on intangible assets	18,205	–	18,205
Fair value loss on disposal of shares in associate	23,487	–	23,487
Headline earnings			956,746
Loss from discontinued operation for the year attributable to the equity holders of the parent entity			(152,414)
Headline adjustments	1	–	1
Other	1	–	1
Headline earnings			(152,413)

	2019 Gross N$'000	2019 Taxation N$'000	2019 Net N$'000
Earnings			
Profit from continuing operations for the year attributable to the equity holders of the parent entity			949,741
Headline adjustments	(382)	–	(382)
Other	(382)	–	(382)
Headline earnings			949,359
Loss from discontinued operation for the year attributable to the equity holders of the parent entity			(19,852)
Headline adjustments	(184)	–	(184)
Other	(184)	–	(184)
Headline earnings			(20,036)

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

12. EARNINGS AND HEADLINE EARNINGS PER SHARE (continued)

	Group	
	2020	**2019**
Number of ordinary shares in issue at year-end ('000) (note 31)	**511,945**	512,116
Weighted average number of ordinary shares in issue during the year ('000)	**511,945**	512,116
Adjusted for effect of future share-based payment transactions ('000)	**1,450**	818
Diluted weighted average number of ordinary shares in issue during the year ('000)	**513,395**	512,934
Earnings per ordinary share (cents) from continuing operations		
Basic	**178.4**	185.5
Fully diluted	**177.9**	185.2
Headline earnings per ordinary share (cents) from continuing operations		
Basic	**186.9**	185.4
Fully diluted	**186.4**	185.1
Earnings per ordinary share (cents) from discontinued operation		
Basic	**(29.8)**	(3.9)
Fully diluted	**(29.7)**	(3.9)
Headline earnings per ordinary share (cents) from discontinued operation		
Basic	**(29.7)**	(3.9)
Fully diluted	**(29.7)**	(3.9)
Earnings per ordinary share (cents)		
Basic	**148.6**	181.6
Fully diluted	**148.2**	181.3
Headline earnings per ordinary share (cents)		
Basic	**157.2**	181.5
Fully diluted	**156.7**	181.2

13. CASH AND BALANCES WITH THE CENTRAL BANK

	Group		Company	
	2020 N$'000	**2019 N$'000**	**2020 N$'000**	**2019 N$'000**
Cash balances	**563,505**	384,003	**–**	–
Bank balances	**–**	–	**387,857**	663,895
Reserve deposits	**(25,904)**	481,510	**–**	–
Included in cash and cash equivalents	**537,601**	865,513	**387,857**	663,895
Mandatory reserve deposits with the respective central banks	**371,516**	707,103	**–**	–
	909,117	1,572,616	**387,857**	663,895

Mandatory reserve deposits are not available for use in the Group's day-to-day operations. Balances with the central bank other than mandatory deposits are interest sensitive. Cash balances as well as mandatory reserve deposits with the central bank are non-interest-bearing. Cash balances for the company reflects bank balances with Bank Windhoek Ltd.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

14. FINANCIAL ASSETS

	Group		Company	
	2020 N$'000	**2019 N$'000**	**2020 N$'000**	**2019 N$'000**
Financial assets at fair value through profit or loss				
Unit trust and money market investments	**2,314,333**	2,037,188	**716,953**	428,092
	2,314,333	2,037,188	**716,953**	428,092
Current	**2,314,333**	2,037,188	**716,953**	428,092
	2,314,333	2,037,188	**716,953**	428,092
Financial assets at amortised cost				
Treasury bills	**–**	208,367	**–**	–
Government stock	**723,596**	688,820	**–**	–
Preference shares	**–**	–	**462,264**	272,782
	723,596	897,187	**462,264**	272,782
Less expected credit loss allowance	**(10,839)**	(36,873)	**(167,416)**	(17,132)
Net financial assets at amortised cost	**712,757**	860,314	**294,848**	255,650
Current	**–**	300,431	**–**	–
Non-current	**712,757**	559,883	**294,848**	255,650
	712,757	860,314	**294,848**	255,650
Movement in impairment on financial assets at amortised cost is as follows for the Group:				
Opening balance	**36,873**	–	**17,132**	–
IFRS 9 initial adoption	**–**	19,696	**–**	1,411
Reclassified as discontinued operation	**(15,308)**	–	**–**	–
Restated opening balance	**21,565**	19,696	**17,132**	1,411
Impairment charge for the year	**(10,726)**	17,177	**153,933**	15,721
Exchange movements	**–**	–	**(3,649)**	–
Closing balance	**10,839**	36,873	**167,416**	17,132

Financial assets at fair value through profit or loss are presented within 'operating activities' in the statement of cash flows. Changes in fair values of financial assets at fair value through profit or loss are recorded in 'net gain/(loss) from financial instruments at fair value through profit or loss' in the statement of comprehensive income (note 7.2.).

Unit trust investments are included in cash and cash equivalents for the purposes of the cash flow statement. Refer to note 39.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Company	
	2020 N$'000	2019 N$'000	**2020 N$'000**	2019 N$'000
Debt instruments				
Treasury bills	**4,191,108**	3,494,404	**–**	–
Government stock	**799,427**	728,510	**–**	–
Tradable instruments	**683,151**	476,153	**683,151**	476,153
Corporate bonds	**40,764**	40,498	**–**	–
Exchange traded funds[3]	**55,191**	–	**–**	–
Equity instruments				
Investment securities – listed[1, 2]	**2,479**	1,768	**–**	–
Investment securities – unlisted	**1,513**	1,392	**–**	–
	5,773,633	4,742,725	**683,151**	476,153
Current	**5,180,388**	4,242,491	**683,151**	476,153
Non-current	**593,245**	500,234	**–**	–
	5,773,633	4,742,725	**683,151**	476,153
Refer to note 3.5 for fair value methodology used. All debt instruments are unlisted.				
The following represents the amortised cost of instruments where this differs from the fair value:				
Treasury bills	**4,197,228**	3,492,915	**–**	–
Government stock	**576,288**	719,123	**–**	–

[1] Listed ordinary shares are held as follows: 6,583,247 shares in Weatherley International Plc, 13,035 shares in Dundee Precious Metals Inc, 28,308 shares in China Africa Resources Plc. The election was made to recognise the equity instruments at fair value through other comprehensive income.

[2] During the previous period under review, 18,182 Visa Inc shares were sold.

[3] During the period under review, 7,316,000 units were bought in exchange traded funds, of which 3,589,375 units were sold during the same period.

** Treasury bills, government stock and corporate bonds previously classified as financial assets at fair value through profit and loss have been reclassified as financial assets at fair value through other comprehensive income under IFRS 9 during the previous year under review.*

Treasury bills and government stocks are securities issued by the Namibian treasury department for a term of three months, six months, nine months, a year or longer. Treasury bills and government stock with a maturity of less than 90 days from the reporting date, are included in cash and cash equivalents for the purposes of the cash flow statement. Refer to note 39.

Treasury bills with a nominal value of N$700 million (2019: N$230 million) are available at the Bank of Namibia for collateral should the need arise. At year-end, there were no treasury bills utilised for security purposes (2019: NIL) at the Bank of Namibia. Bank of Botswana certificates with a nominal value of N$251 million (2019: N$138 million) are pledged as security with the Bank of Botswana. At 30 June 2020 treasury bills of N$430 million have been collateralised under a sale-and-buyback agreement (2019: NIL).

Refer to note 3.5 for fair value methodology used.

16. DUE FROM OTHER BANKS

	Group	
	2020 N$'000	2019 N$'000
Placement with other banks	**2,996,527**	1,724,043

Placements with other banks are callable on demand and are therefore current assets.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

17. LOANS AND ADVANCES TO CUSTOMERS

	Group	
	2020 N$'000	**2019 N$'000**
Overdrafts	**5,840,028**	5,576,472
Term loans	**13,102,458**	12,001,762
Mortgages	**18,415,771**	17,748,863
– Residential mortgages	**11,224,083**	10,626,992
– Commercial mortgages	**7,191,688**	7,121,871
Instalment finance	**3,319,511**	3,209,275
Preference shares	**467,346**	409,743
Gross loans and advances	**41,145,114**	38,946,115
Effective interest rate impact per IFRS 9	**(126,577)**	(133,013)
Gross loans and advances after effective interest impact	**41,018,537**	38,813,102
Less impairment		
Stage 1	**(183,229)**	(152,536)
Stage 2	**(100,250)**	(102,256)
Stage 3	**(656,436)**	(508,727)
	40,078,622	38,049,583
Value of loans and advances as per IFRS 9		
Gross loans and advances	**41,145,114**	38,946,115
Effective interest rate impact per IFRS 9	**(126,577)**	(133,013)
Interest in suspense (contractual interest suspended on non-performing loans)	**433,244**	346,836
Interest capitalised on stage 3 impaired loans and advances	**89,589**	114,692
Value of loans and advances	**41,541,370**	39,274,630
Value of impairments as per IFRS 9		
Gross impairments	**(939,915)**	(763,519)
Interest in suspense (contractual interest suspended on non-performing loans)	**(433,244)**	(346,836)
Additional impairment on stage 3 capitalised interest	**(89,589)**	(114,692)
Value of impairments	**(1,462,748)**	(1,225,047)
Loans and advances	**40,078,622**	38,049,583

N$68,750,000 of loans and advances have been ceded to Caliber Capital Trust as security for a loan (Note 25).

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

17. LOANS AND ADVANCES TO CUSTOMERS (continued)

Movement in impairment on loans and advances to customers is as follows for the Group:

	Overdrafts N$'000	Term loans N$'000	Mortgages N$'000	Instalment finance N$'000	Total N$'000
30 June 2020					
Balance at the beginning of the year	197,638	209,767	164,841	191,273	763,519
– Stage 1	34,079	40,279	13,177	65,001	152,536
– Stage 2	38,902	23,474	14,925	24,955	102,256
– Stage 3	124,657	146,014	136,739	101,317	508,727
Discontinued operation	(2,835)	(79)	(1,763)	(76,353)	(81,030)
Adjusted balance at the beginning of the year	194,803	209,688	163,078	114,920	682,489
Loan impairments	87,789	177,381	71,102	(14,123)	322,149
Foreign exchange differences	755	8,507	2,012	2,705	13,979
Amounts written off during the year as uncollectible	(10,826)	(50,560)	(6,186)	(11,130)	(78,702)
Balance at the end of the year	272,521	345,016	230,006	92,372	939,915
– Stage 1	43,135	88,484	15,367	36,243	183,229
– Stage 2	39,357	26,554	22,152	12,187	100,250
– Stage 3	190,029	229,978	192,487	43,942	656,436

	Overdrafts N$'000	Term loans N$'000	Mortgages N$'000	Instalment finance N$'000	Total N$'000
30 June 2019					
Balance at the beginning of the year	74,737	163,073	72,676	56,081	366,567
Specific impairment	49,300	108,013	60,438	40,660	258,411
Portfolio impairment	25,437	55,060	12,238	15,421	108,156
IFRS 9 initial adoption	102,486	19,422	79,593	213,049	414,550
IFRS 9 adjusted balance at the beginning of the year	177,223	182,495	152,269	269,130	781,117
– Stage 1	38,684	34,454	16,514	64,341	153,993
– Stage 2	31,072	21,364	18,267	72,423	143,126
– Stage 3	107,467	126,677	117,488	132,366	483,998
Loan impairments	25,301	73,529	12,974	(2,946)	108,858
Foreign exchange differences	–	(3,627)	–	(49,836)	(53,463)
Amounts written off during the year as uncollectible	(4,886)	(42,630)	(402)	(25,075)	(72,993)
Balance at the end of the year	197,638	209,767	164,841	191,273	763,519
– Stage 1	34,079	40,279	13,177	65,001	152,536
– Stage 2	38,902	23,474	14,925	24,955	102,256
– Stage 3	124,657	146,014	136,739	101,317	508,727

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

17. LOANS AND ADVANCES TO CUSTOMERS (continued)

	Group			
	2020 N$'000	2020 %	2019 N$'000	2019 %
Total impairment by geographical area				
Namibia	683,665	72.7	505,328	66.2
Botswana	240,728	25.6	159,268	20.8
Zambia	15,522	1.7	98,923	13.0
	939,915	100.0	763,519	100.0
Maturity analysis of loans and advances to customers for the Group were as follows:				
Repayable within 1 month	6,111,946	14.9	5,704,097	14.6
Repayable after 1 month but within 3 months	95,863	0.2	125,148	0.3
Repayable after 3 months but within 6 months	310,142	0.8	173,879	0.5
Repayable after 6 months but within 12 months	337,412	0.8	329,663	0.9
Repayable after 12 months	34,289,751	83.3	32,613,328	83.7
	41,145,114	100.0	38,946,115	100.0

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

17. LOANS AND ADVANCES TO CUSTOMERS (continued)

	Group	
	2020 N$'000	**2019 N$'000**
The loans and advances to customers include instalment finance receivables which are analysed as follows:		
Repayable within 1 year	**164,945**	157,581
Repayable after 1 year but within 5 years	**3,470,533**	3,551,382
Repayable after 5 years	**113,672**	20,517
Gross investment in instalment finances	**3,749,150**	3,729,480
Unearned future finance income on instalment finances	**(429,639)**	(520,205)
Net investment in instalment finances	**3,319,511**	3,209,275

Under the terms of lease agreements, no contingent rentals are payable. These agreements relate to motor vehicles and equipment.

The Group has a share purchase scheme in which it has a mechanism to allow employees to purchase shares in Capricorn Group at a value that approximates fair value at the date of sale of shares. The shares are sold via an interest free loan provided by Bank Windhoek Ltd. Such loans are full recourse loans and if not repaid, Bank Windhoek Ltd may legally take possession of the employee's personal assets. Thus the share purchase scheme does not fall within the scope of IFRS 2 – 'Share-based payment'. The benefit employees receive relating to the interest free element of the loan is taken directly to the employee loan accounts.

Included in term loans is an amount of N$49.8 million (2019: N$46.6 million) relating to the above-mentioned scheme.

The movements on these staff loans were as follows:

	Group	
	2020 N$'000	**2019 N$'000**
Opening balance	**46,625**	43,496
New loans advanced during the year	**6,584**	20,832
Loans redeemed during the year	**(30,209)**	(16,076)
Staff costs (adjustment to fair value)	**8,755**	(6,657)
Effective interest charged	**2,853**	5,030
Closing balance	**34,608**	46,625

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

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18. OTHER ASSETS

	Group		Company	
	2020 N$'000	2019 N$'000	**2020 N$'000**	2019 N$'000
Insurance fund asset	**54,100**	51,125	**–**	–
Accounts receivable	**60,295**	187,852	**60**	70
Receivables from related parties*	**–**	–	**85,729**	77,242
Dividends receivable	**–**	–	**862**	–
Clearing and settlement accounts	**175,523**	224,531	**–**	–
Prepayments	**39,489**	42,654	**1,724**	104,200
Other taxes	**735**	1,085	**–**	–
Inventory**	**68,514**	46,816	**–**	–
Derivative financial instruments – interest rate swaps	**–**	357	**–**	–
	398,656	554,420	**88,375**	181,512
Less expected credit loss allowance	**–**	–	**(32,065)**	(16,303)
Net other assets	**398,656**	554,420	**56,310**	165,209
Current	**343,356**	502,822	**56,310**	165,209
Non-current	**55,300**	51,598	**–**	–
	398,656	554,420	**56,310**	165,209
Movement in impairment on other assets				
Opening balance	**–**	–	**16,303**	–
IFRS 9 initial adoption	**–**	–	**–**	22,395
Restated opening balance	**–**	–	**16,303**	22,395
Impairment charge for the year	**–**	–	**16,543**	–
Foreign exchange gain	**–**	–	**(781)**	(6,092)
Closing balance	**–**	–	**32,065**	16,303

* *Receivables from related parties include loans to Capricorn Capital, Capricorn Hofmeyer and the Share Trust. These loans are unsecured, have no fixed repayment terms and are interest-free. The loan to Capricorn Capital has been subordinated by Capricorn Group to the value of N$ 26.1 million.*

** *Inventory comprises of work-in-progress.*

The notional principal amount of the outstanding interest rate swap contracts, included above and in other liabilities (note 28), at 30 June 2020 was N$173.5 million (2019: N$260.0 million).

Refer to note 3.2.6 for credit quality disclosure of financial instruments included in other assets.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

19. INVESTMENT IN SUBSIDIARIES

The following information relates to the company's financial interests in its unlisted subsidiaries:

	Principal place of business	Number of shares held '000	Issued ordinary share capital and premium N$'000	Effective holding 2020 %	Effective holding 2019 %
Subsidiaries of Capricorn Group					
Bank Windhoek Ltd	Namibia	4,920	485,000	100	100
Namib Bou (Pty) Ltd	Namibia	600	23,000	100	100
Capricorn Asset Management (Pty) Ltd	Namibia	55	1,001	100	100
Capricorn Unit Trust Management Company Ltd	Namibia	2,000	2,000	100	100
Capricorn Capital (Pty) Ltd	Namibia	4	100	100	100
Capricorn Investment Holdings (Botswana) Ltd	Botswana	52,873	318,858	84.8	84.3
Cavmont Capital Holdings Zambia Plc	Zambia	111,625	207,340	97.9	97.9
Mukumbi Investments (Pty) Ltd	Zambia	5	33	100	100
Entrepo Holdings (Pty) Ltd	Namibia	15	130,000	55.5	55.5
Capricorn Mobile (Pty) Ltd	Namibia	0.2	5,000	100.0	100.0
Capricorn Investment Group (Pty) Ltd	South Africa	0.1	0.1	100.0	100.0
Capricorn Hofmeyer Property (Pty) Ltd	Namibia	0.1	0.1	100.0	-
Subsidiaries of Bank Windhoek Ltd					
Bank Windhoek Nominees (Pty) Ltd	Namibia	0.1	0.1	100	100
BW Finance (Pty) Ltd	Namibia	0.1	0.1	100	100
Bank Windhoek Properties (Pty) Ltd	Namibia	1	1	100	100
Subsidiaries of Capricorn Investment Holdings (Botswana) Ltd					
Bank Gaborone Ltd (BG)	Botswana	220,000	297,309	100	100
CIH Insurance Brokers (Pty) Ltd	Botswana	1	8,124	100	100
Capricorn Asset Management (Botswana) (Pty) Ltd	Botswana	1	2,579	100	100
Peo Micro (Pty) Ltd	Botswana	30	30	100	100
Subsidiaries of Cavmont Capital Holdings Zambia Plc					
Cavmont Bank Ltd	Zambia	19,075	26,445	100	100
Subsidiaries of Entrepo Holdings (Pty) Ltd					
Entrepo Life Ltd	Namibia	4	4,200	100	100
Entrepo Finance (Pty) Ltd	Namibia	4	4	100	100

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for the year ended 30 June 2020

19. INVESTMENT IN SUBSIDIARIES (continued)

	Aggregate income of subsidiaries (after tax)		Total investment	
	2020 N$'000	2019 N$'000	2020 N$'000	2019 N$'000
Financial details of subsidiaries				
Subsidiaries of Capricorn Group				
Bank Windhoek Ltd (consolidated)	**721,448**	797,714	**520,440**	520,440
Namib Bou (Pty) Ltd	**100**	1,853	**23,000**	23,000
Capricorn Asset Management (Pty) Ltd	**30,758**	25,753	**127,954**	127,954
Capricorn Unit Trust Management Company Ltd	**24,092**	23,042	**64,750**	64,750
Capricorn Capital (Pty) Ltd	**(4,036)**	(10,293)	**163**	163
Capricorn Investment Holdings (Botswana) Ltd	**54,206**	59,655	**438,776**	436,361
Cavmont Capital Holdings Zambia Plc	**(155,682)**	(19,853)	**–**	–
Mukumbi Investments (Pty) Ltd	**(66)**	25	**–**	–
Entrepo Holdings Ltd	**202,630**	171,823	**238,680**	238,680
Capricorn Mobile (Pty) Ltd	**(269)**	(914)	**5,000**	0.1
Capricorn Investment Group (Pty) Ltd	**(383)**	(299)	**0.1**	0.1
Capricorn Hofmeyer Property (Pty) Ltd	**(1)**	–	**0.1**	–
	872,797	1,048,506	**1,418,763**	1,411,348
Non-current			**1,418,763**	1,411,348

The at-acquisition exchange rates of BWP1.289 and ZMW1.386 have been applied to the conversion of the investment. Average exchange rates for the year of BWP1.399 (2019: BWP1.323) and ZMW1.024 (2019: ZMW1.234) have been applied on the conversion of the aggregate income.

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held by the parent company do not differ from the proportion of ordinary shares held. Refer to note 14 for the parent company's shareholding in the preference shares of subsidiary undertakings included in the Group.

Refer to note 40 for related party transactions and balances with subsidiaries.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

20. INVESTMENT IN ASSOCIATES

Set out below are the associates of the Group as at 30 June 2020. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group.

	Number of shares held '000	Issued ordinary share capital and premium N$'000	Effective holding 2020 %	Effective holding 2019 %	Shares at cost 2020 N$'000	Shares at cost 2019 N$'000
Associates of Capricorn Group						
Santam Namibia Ltd	1,230	8,307	**28.0**	28.0	**62,905**	62,905
Sanlam Namibia Holdings (Pty) Ltd	30	160,665	**29.5**	29.5	**47,290**	47,290
Paratus Namibia Holdings Ltd	8,615	28,711	**17.7**	30.0	**88,737**	88,737
Paratus Group Holdings Ltd	48	2,757	**30.0**	–	**232,263**	–
					431,195	198,932

20.1 Santam Namibia Ltd

The company holds a 28 % interest in Santam Namibia Ltd, a short-term insurance company.

	Group 2020 N$'000	Group 2019 N$'000	Company 2020 N$'000	Company 2019 N$'000
Carrying value of investment in associate				
Investment at cost	**62,905**	62,905	**62,905**	62,905
Share of current year's retained income	**29,250**	20,270		
– Profit before tax	**45,688**	29,474		
– Current and deferred tax	**(16,438)**	(9,204)		
Dividends paid	**(27,116)**	(15,949)		
Post-acquisition retained income at the beginning of the year	**70,648**	66,327		
	135,687	133,553	**62,905**	62,905
Directors' valuation	**190,441**	217,043	**190,441**	217,043

Technique used for directors' valuation:

Santam Namibia Ltd is not listed on a stock exchange and therefore has no quoted market price available for its shares. The directors' valuation was determined by using its price-to-book-value basis of valuation.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

20. INVESTMENT IN ASSOCIATES (continued)

20.1 Santam Namibia Ltd (continued)

	Group		Company	
	2020 N$'000	**2019 N$'000**	**2020 N$'000**	**2019 N$'000**
Summarised financial information (unaudited)				
Revenue (net earned premium)	**899,793**	899,478		
Profit after tax	**104,633**	72,391		
Total comprehensive income	**104,633**	72,391		
Non-current assets	**539,182**	546,511		
Technical assets	**400,129**	324,055		
Current assets	**126,402**	229,571		
Non-current liabilities	**(15,675)**	–		
Technical liabilities	**(387,897)**	(481,820)		
Current liabilities	**(260,321)**	(224,135)		
Net asset value	**401,820**	394,182		
Interest in associate (28 %)	**112,327**	110,193		
Goodwill on acquisition	**23,360**	23,360		
Carrying value of investment in associate	**135,687**	133,553		

20.2 Sanlam Namibia Holdings (Pty) Ltd

The company holds an effective 29.5 % in Sanlam Namibia Holdings (Pty) Ltd, a Namibian company providing a variety of financial services.

	Group		Company	
	2020 N$'000	**2019 N$'000**	**2020 N$'000**	**2019 N$'000**
Carrying value of investment in associate				
Investment at cost	**47,290**	47,290	**47,290**	47,290
Share of current year's retained income	**29,547**	49,621		
– Profit before tax	**31,518**	52,049		
– Current and deferred tax	**(1,971)**	(2,428)		
Dividends paid	**(32,111)**	(44,779)		
Post-acquisition retained income at the beginning of the year	**76,076**	71,234		
	120,802	123,366	**47,290**	47,290
Directors' valuation	**512,914**	510,458	**512,914**	510,458

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

20. INVESTMENT IN ASSOCIATES (continued)

20.2 Sanlam Namibia Holdings (Pty) Ltd (continued)

Technique used for directors' valuation:

Sanlam Namibia Holdings (Pty) Ltd is a private company and there is no quoted market price available for its shares. The directors' valuation was determined by using the price to embedded value basis of valuation.

	Group		Company	
	2020 N$'000	2019 N$'000	2020 N$'000	2019 N$'000
Summarised financial information (unaudited)				
Revenue (net insurance income)	763,178	1,032,937		
Profit after tax	100,300	168,435		
Total comprehensive income	100,300	168,435		
Non-current assets	5,379,570	5,010,795		
Current assets	584,840	621,131		
Non-current liabilities	(5,191,060)	(4,744,744)		
Current liabilities	(426,452)	(531,582)		
Net asset value	346,898	355,600		
Interest in associate (29.5 %)	102,196	104,760		
Goodwill on acquisition	18,606	18,606		
Carrying value of investment in associate	120,802	123,366		

The associates above have December financial year-ends and are incorporated in Namibia. The country of incorporation/registration is also their principal place of business. The results of associates are equity accounted. Management accounts as at 30 June 2020 have been used for equity accounting the share of results of associates for their half year ended 30 June 2020.

20.3 Paratus Namibia Holdings Ltd

The company holds a 17.7 % interest in Paratus Namibia Holdings Ltd, a Capital Pool Company with the objective of pursuing investments in the Information Communication and Technology Sector.

	Group		Company	
	2020 N$'000	2019 N$'000	2020 N$'000	2019 N$'000
Carrying value of investment in associate				
Investment at cost	88,737	88,737	88,737	88,737
Share of current year's retained income	4,180	2,766		
– Profit before tax	5,591	2,766		
– Current and deferred tax	(1,411)	–		
Dividends paid	(862)	–		
Post-acquisition retained income at the beginning of the year	259	294		
	92,314	91,797	88,737	88,737
Valuation	94,767	88,737	94,767	88,737

Effective 1 January 2020. Paratus Namibia Holdings Ltd acquired the remaining shares in Paratus Telecommunications (Pty) Ltd (registered in Namibia), through a share swap transaction with Paratus Group Holdings Ltd (registered in Mauritius). The share swap transaction resulted in the direct interest held in Paratus Namibia Holdings Ltd by Capricorn Group to decrease from 30.0 % to 17.7 %. The effective interest held in Paratus Namibia Holdings Ltd by Capricorn Group remains 30.0 %.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

20. INVESTMENT IN ASSOCIATES (continued)

20.3 Paratus Namibia Holdings Ltd (continued)

Technique used for directors' valuation:

Paratus Namibia Holdings Ltd is listed on the Namibia Stock Exchange ("NSX") and therefore has a quoted market price available for its shares.

	Group		Company	
	2020 N$'000	2019 N$'000	**2020 N$'000**	2019 N$'000
Summarised financial information (unaudited)				
Revenue	**169,548**	6,998		
Profit after tax	**23,742**	9,220		
Total comprehensive income	**23,742**	9,220		
Non-current assets	**553,496**	199,516		
Current assets	**182,443**	106,627		
Non-current liabilities	**(157,015)**	–		
Current liabilities	**(57,376)**	(212)		
Net asset value	**521,548**	305,931		
Interest in associate (17.7 %) (2019: 30 %)	**92,314**	91,797		
Carrying value of investment in associate	**92,314**	91,797		

20.4 Paratus Group Holdings Ltd

On 1 July 2019, the company concluded on a 30 % acquisition in Paratus Group Holdings Ltd ("Paratus"). Paratus and its subsidiaries and associates provide services in 24 African countries, the most significant of which are Angola, Zambia and Botswana.

	Group		Company	
	2020 N$'000	2019 N$'000	**2020 N$'000**	2019 N$'000
Carrying value of investment in associate				
Investment at cost	**232,263**	–	**232,263**	–
Share of current year's retained income	**734**	–		
– Profit before tax	**1,395**	–		
– Current and deferred tax	**(661)**	–		
	232,997	–	**232,263**	–
Valuation	**244,569**	–	**244,569**	–

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

20. INVESTMENT IN ASSOCIATES (continued)

20.4 Paratus Group Holdings Ltd (continued)

Technique used for directors' valuation:

The directors' valuation was determined by using the implied price earnings basis of valuation.

	Group		Company	
	2020 N$'000	**2019 N$'000**	**2020 N$'000**	**2019 N$'000**
Summarised financial information (unaudited)				
Revenue	777,289	–		
Profit after tax	21,723	–		
Total comprehensive income	21,723	–		
Non-current assets	918,307	–		
Current assets	385,009	–		
Non-current liabilities	(57,462)	–		
Current liabilities	(285,310)	–		
Non-controlling interest	(183,885)	–		
Net asset value	776,658	–		
Interest in associate (30.0 %)	232,997	–		
Carrying value of investment in associate	232,997	–		
Total investment in associates (non-current)	581,800	348,716	431,195	198,932

Refer to note 40 for related party transactions and balances with associates.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

21. INTEREST IN JOINT ARRANGEMENTS

Joint venture

The joint venture was incorporated in Namibia. The country of incorporation or registration is also its principal place of business. The results of the joint venture is equity accounted. Management accounts as at 30 June 2020, have been used for equity accounting the share of results for the year-ended 30 June 2020. The value of the Group's share in assets, liabilities, income and expenditure is not significant to the Group as a whole.

The joint venture listed below has share capital consisting solely of ordinary shares, which are held directly by the Group.

The Group obtained a 25 % interest in Namclear (Pty) Ltd during 2005. According to the joint venture agreement, a unanimous vote from all four shareholders is required to effect a resolution. Namclear (Pty) Ltd has a December year-end.

On 31 January 2020, Namclear (Pty) Ltd's incorporation as a non-profit association under section 21 of the Companies Act of Namibia was completed. On this date the share capital and share premium contributed was redeemed. The shareholders of the company resolved that a final dividend to the value of the investment would be declared.

	Number of shares held '000	Issued ordinary share capital and premium N$'000	Effective holding 2020 %	Shares at cost 2020 N$'000	Shares at cost 2019 N$'000
Namclear (Pty) Ltd	–	–	–	–	1,154

	Group 2020 N$'000	Group 2019 N$'000
Opening balance	11,016	7,341
The Group's share of the profit in the joint venture	2,817	3,675
Dividend declaration	(13,833)	–
Closing balance	–	11,016
Non-current	–	11,016
Directors' valuation	–	11,016
Technique used for directors' valuation:		
Namclear (Pty) Ltd is a private company and there is no quoted market price available for its shares. The directors' valuation for 2019 was determined by using its net asset values, which is level 3 of the fair value hierarchy.		
Aggregated summarised financial information of Namclear (Pty) Ltd		
Profit after tax	23,481	14,700
Total comprehensive income	23,481	14,700
Non-current assets	54,967	52,656
Current assets	53,415	49,983
Non-current liabilities	(72,949)	(40,709)
Current liabilities	(30,817)	(17,866)
Net asset value	4,616	44,064
Interest in joint arrangement (0 %) (2019: 25 %)	–	11,016
Carrying value of joint arrangement	–	11,016

Refer to note 40 for related party transactions and balances with joint ventures.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

22. INTANGIBLE ASSETS

Group	Goodwill[1] N$'000	Purchased software N$'000	Intangible assets in development N$'000	Internally generated software N$'000	Total N$'000
30 June 2020					
Cost					
Cost at 1 July 2019	**71,068**	**109,231**	**26,049**	**281,962**	**488,310**
Transfers	**–**	**–**	**(29,265)**	**26,138**	**(3,127)**
Additions	**–**	**3,830**	**30,014**	**36,824**	**70,668**
Exchange differences	**–**	**17,905**	**5,053**	**–**	**22,958**
Reclassification to assets held for sale	**–**	**(76,795)**	**–**	**–**	**(76,795)**
Cost at 30 June 2020	**71,068**	**54,171**	**31,851**	**344,924**	**502,014**
Amortisation					
Amortisation at 1 July 2019	**–**	**(97,417)**	**(6,875)**	**(108,179)**	**(212,471)**
Charge for the year	**–**	**(6,613)**	**–**	**(41,467)**	**(48,080)**
Transfer	**–**	**–**	**6,875**	**(6,875)**	**–**
Exchange differences	**–**	**(7,753)**	**–**	**–**	**(7,753)**
Reclassification to assets held for sale	**–**	**71,946**	**–**	**–**	**71,946**
Amortisation at 30 June 2020	**–**	**(39,837)**	**–**	**(156,521)**	**(196,358)**
Impairment loss					
Impairment loss at 1 July	**–**	**–**	**–**	**–**	**–**
Charge for the year	**–**	**–**	**–**	**(18,205)**	**(18,205)**
Impairment loss at 30 June	**–**	**–**	**–**	**(18,205)**	**(18,205)**
Net book value at 30 June 2020	**71,068**	**14,334**	**31,851**	**170,198**	**287,451**
30 June 2019					
Cost					
Cost at 1 July 2018	71,068	113,801	28,325	247,631	460,825
Transfers	–	–	(63,118)	31,054	(32,064)
Additions	–	322	60,582	3,425	64,329
Exchange differences	–	(4,892)	260	(148)	(4,780)
Cost at 30 June 2019	71,068	109,231	26,049	281,962	488,310
Amortisation					
Amortisation at 1 July 2018	–	(94,538)	(6,760)	(75,594)	(176,892)
Charge for the year	–	(3,103)	–	(32,327)	(35,430)
Exchange differences	–	224	(115)	(258)	(149)
Amortisation at 30 June 2019	–	(97,417)	(6,875)	(108,179)	(212,471)
Net book value at 30 June 2019	71,068	11,814	19,174	173,783	275,839

All intangible assets are held by the Group, none by the company and all are classified as non-current assets. No assets were encumbered at 30 June 2020 nor 30 June 2019.

[1] *Goodwill is tested for impairment on annual basis as per the requirements of IAS 36. Goodwill is allocated to each subsidiary based on its initial acquisition. Each subsidiary is deemed to be an individual cash-generating units ("CGUs"). The recoverable amount of the cash-generating units ("CGUs") was determined using fair value calculations of the individual companies that gave rise to the goodwill asset.*

No instance was detected which indicated the impairment of the goodwill.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

23. PROPERTY AND EQUIPMENT

Group	Freehold land and buildings N$'000	Computer and other equipment N$'000	Motor vehicles N$'000	Furniture, fittings and other office equipment N$'000	Right-of-use assets** N$'000	Total N$'000
30 June 2020						
Cost						
Cost at 1 July 2019	81,165	311,377	31,753	312,196	–	736,491
Initial adoption of IFRS 16	–	–	–	–	359,138	359,138
Adjusted cost at 1 July 2019	81,165	311,377	31,753	312,196	359,138	1,095,629
Additions*	53,153	30,240	7,520	20,783	83,842	195,538
Transfers	(44,413)	(3,293)	–	50,833	–	3,127
Exchange differences	(4,724)	(17,980)	(983)	(12,927)	–	(36,614)
Reclassification to assets held for sale	(26,772)	(21,927)	(4,716)	(70,011)	(43,244)	(166,670)
Disposals	(1,922)	(1,619)	(1,427)	(4,889)	–	(9,857)
Cost at 30 June 2020	56,487	296,798	32,147	295,985	399,736	1,081,153
Depreciation						
Accumulated depreciation at 1 July 2019	(32,486)	(195,133)	(17,005)	(207,423)	–	(452,047)
Charge for the year	(1,398)	(35,950)	(1,230)	(21,719)	(91,698)	(151,995)
Depreciation reversal due to useful lives review	–	15,847	2,051	5,130	–	23,028
Exchange differences	2,006	2,060	155	(1,992)	–	2,229
Reclassification to assets held for sale	11,369	22,930	1,793	56,669	–	92,761
Depreciation on disposals	274	1,376	1,333	4,382	–	7,365
Accumulated depreciation at 30 June 2020	(20,235)	(188,870)	(12,903)	(164,953)	(91,698)	(478,659)
Net book value at 30 June 2020	36,252	107,928	19,244	131,032	308,038	602,494
Additions*						
For cash flow purposes						
Continuing operations	53,130	27,121	5,981	16,773	–	103,005
Discontinued operations	23	3,119	1,539	4,010	–	8,691
Non-cash flow items	-	–	–	–	83,842	83,842
	53,153	30,240	7,520	20,783	83,842	195,538
30 June 2019						
Cost						
Cost at 1 July 2018	79,932	236,851	30,744	285,237	–	632,764
Additions	–	62,009	5,983	8,242	–	76,234
Transfers	–	8,057	–	24,007	–	32,064
Exchange differences	1,233	5,786	956	4,640	–	12,615
Disposals	–	(1,326)	(5,930)	(9,930)	–	(17,186)
Cost at 30 June 2019	81,165	311,377	31,753	312,196	–	736,491
Depreciation						
Accumulated depreciation at 1 July 2018	(30,136)	(154,543)	(19,565)	(190,074)	–	(394,318)
Charge for the year	(1,875)	(39,825)	(2,149)	(23,064)	–	(66,913)
Exchange differences	(475)	(2,087)	(826)	(3,951)	–	(7,339)
Depreciation on disposals	–	1,322	5,535	9,666	–	16,523
Accumulated depreciation at 30 June 2019	(32,486)	(195,133)	(17,005)	(207,423)	–	(452,047)
Net book value at 30 June 2019	48,679	116,244	14,748	104,773	–	284,444

** *Right-of-use assets comprise the leases of various offices, branches and houses.*

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

23. PROPERTY AND EQUIPMENT (continued)

The useful lives of the assets were reviewed during June 2020 and the expectations differ from previous estimates, thus the change is accounted for as a change in estimates under IAS 8. Refer to note 1.3.1(b) for further disclosures.

Details regarding the fixed properties as required in terms of Schedule 4 of the Companies Act of Namibia are available to shareholders at the registered office of the Group. This information will be open for inspection in terms of the provisions of section 120 of the Companies Act of Namibia, 2004. The company does not own any property and equipment.

No assets were encumbered at 30 June 2020 nor 30 June 2019. All property and equipment are classified as non-current assets.

24. DUE TO OTHER BANKS

	Group	
	2020 N$'000	**2019 N$'000**
Current accounts	**6,355**	72,756
Borrowings from other banks – in the normal course of business	**962,788**	172,947
	969,143	245,703
Current	**969,143**	245,703

Due to other banks are unsecured with no fixed repayment terms and bears interest at market-related interest rates.

Due to other banks include repurchase agreements of N$422.7 million (2019: Nil).

25. OTHER BORROWINGS

	Group		Company	
	2020 N$'000	**2019 N$'000**	**2020 N$'000**	**2019 N$'000**
Balance as at 1 July	**996,372**	1,313,433	**141,726**	95,923
Additions	**146,435**	451,360	**146,435**	396,360
Redemptions	**(312,868)**	(770,874)	**(145,595)**	(353,601)
Accrued interest	**85,256**	140,202	**6,390**	30,227
Coupon payments	**(83,728)**	(140,793)	**(6,390)**	(30,227)
Foreign exchange movement	**30,035**	3,044	**30,035**	3,044
Balance as at 30 June	**861,502**	996,372	**172,601**	141,726
Current	**393,829**	360,993	**172,601**	141,726
Non-current	**467,673**	635,379	**–**	–
	861,502	996,372	**172,601**	141,726

Other borrowings consist of N$920 million long-term funding with IFC (International Finance Corporation), of which N$501.8 million has been repaid to date, as well as a long-term loan from AFD (Agence Francaise de Developpement) of N$219 million. The balance is further made up of a Bank One loan of N$173 million and a loan from the Caliber Capital Trust of N$55 million.

The IFC loan is repayable semi-annually over a seven-year term with quarterly interest repayments. The first capital repayment was made in December 2017. Interest on the IFC loans is charged at three-month JIBAR plus an average spread of 2.95 %.

The AFD loan is repayable semi-annually over a seven-year term with quarterly interest repayments. The first capital repayment is due in December 2020. Interest on the AFD loan is charged at three-month JIBAR plus a spread of 1.131 %.

The interest on the Bank One loan is repayable quarterly over the one-year term of the loan with the capital amount being repayable at the end of the loan. Interest on the Bank One loan is charged at three-month LIBOR plus a spread of 2.3 %.

The Caliber Capital Trust loan bears interest at Namibian prime plus 3.5 % and is repayable at the end of the loan term.

The Group complied with all debt covenant requirements relating to these loans in the current financial year.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

26. DEBT SECURITIES IN ISSUE

	Group		Company	
	2020 N$'000	**2019 N$'000**	**2020 N$'000**	**2019 N$'000**
Balance as at 1 July	**5,670,974**	4,777,074	**1,769,729**	1,038,272
Redemptions	**(762,182)**	(993,816)	**–**	(100,000)
Additions	**700,872**	1,826,392	**500,000**	820,392
Effective interest	**437,813**	437,055	**139,583**	96,531
Coupon payments	**(447,909)**	(379,811)	**(137,599)**	(86,450)
Forex gain	**42,723**	4,080	**14,642**	984
Balance as at 30 June	**5,642,291**	5,670,974	**2,286,355**	1,769,729
Current	**1,125,544**	721,551	**423,159**	24,729
Non-current	**4,516,747**	4,949,423	**1,863,196**	1,745,000
	5,642,291	5,670,974	**2,286,355**	1,769,729

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

26. DEBT SECURITIES IN ISSUE (continued)

Debt instruments	Interest rate	Maturity date	Notes	Group 2020 N$'000	Group 2019 N$'000
Five-year callable bonds					
BW25	9.75 %	18-Aug-25	26.1	**187,545**	187,533
Bonds issued by Bank Gaborone	3 mth BoBC rate + 2.1 %	31-Oct-21	26.1	**73,182**	66,681
				260,727	254,214
Senior debt – unsecured					
BWFh19 fixed rate note	8.86 %	22-Aug-19	26.2	**–**	113,473
BWJj19 floating rate note	3 mth JIBAR + 175bps	25-Oct-19	26.2	**–**	121,949
BWZj19 floating rate note	3 mth JIBAR + 205bps	10-Nov-19	26.2	**–**	162,099
BWZ20A floating rate note	3 mth JIBAR + 215bps	27-Mar-20	26.2	**–**	299,300
BWi20 floating rate note	3mth JIBAR + 180bps	18-Sep-20	26.2	**265,546**	265,857
BWJL21G Floating rate note	3 mth JIBAR + 150bps	6-Dec-21	26.2	**66,246**	66,387
BWRj21 fixed rate note	7.75 %	15-Oct-21	26.2	**59,461**	58,285
BWZj21 floating rate note	3 mth JIBAR + 230bps	10-Nov-21	26.2	**60,584**	60,808
BWJd21 floating rate note	3mth JIBAR + 185bps	20-Apr-21	26.2	**131,721**	132,460
BWZ21B floating rate note	3mth JIBAR + 205bps	27-Mar-21	26.2	**300,196**	300,299
BWFh22 fixed rate note	9.50 %	18-Aug-22	26.2	**285,371**	285,545
BWJh22 floating rate note	3mth JIBAR + 195bps	18-Aug-22	26.2	**136,062**	136,672
BWFK22 fixed rate note	9.98 %	21-Nov-22	26.2	**247,724**	247,724
BWJK22 floating rate note	3 mth JIBAR + 187 bps	21-Nov-22	26.2	**156,066**	156,572
BWZJ23 floating rate note	3 mth JIBAR + 190 bps	19-Nov-22	26.2	**342,523**	343,628
BWFI23 fixed rate note	8.72 %	29-Sep-23	26.2	**48,802**	–
BWJI24 floating rate note	3m JIBAR + 150bps	30-Sep-24	26.2	**95,014**	–
BWJ1e27 floating rate note	3 mth JIBAR + 215bps	19-May-27	26.2	**503,858**	505,483
BWJ2e27 floating rate note	3 mth JIBAR	19-May-27	26.2	**301,555**	302,530
CGL001 floating rate note	Botswana bank rate + 160bps	8-Apr-24	26.2	**190,738**	174,035
Senior debt issued by Bank Gaborone	7.3 % -7.5 %	June 2028; June 2027	26.2	**94,480**	87,960
				3,285,947	3,821,066
Preference shares (floating rate note)					
2,500 Preference shares – Santam Namibia Ltd	64.5 % of prime	1-Dec-21	26.3	**25,105**	25,139
40,000 Preference Shares – Capricorn Investment Holdings Ltd	3mth JIBAR	23-Mar-27	26.3	**403,042**	404,785
35,000 Preference Shares – First National Bank of Namibia	72.1 % of Namibian prime	15-Mar-24	26.3	**353,358**	354,412
30,000 Preference Shares – First National Bank of Namibia	71.4 % of Namibian prime	15-Mar-24	26.3	**302,820**	303,759
				1,084,325	1,088,095

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

26. DEBT SECURITIES IN ISSUE (continued)

Debt instruments	Interest rate	Maturity date	Notes	Group 2020 N$'000	Group 2019 N$'000
Debentures					
Various funds administered by Capricorn Asset Management (Pty) Ltd	3 mth JIBAR + 195bps	30-Apr-20	26.4	**404,373**	406,088
Capricorn Investment Holdings Ltd	3 mth JIBAR + 235bps	31-Dec-27	26.4	**101,153**	101,511
Government Institutions Pension Fund (GIPF)	3 mth JIBAR + 235bps	31-Jan-30	26.4	**505,766**	–
				1,011,292	507,599
Total debt securities in issue at the end of the year				**5,642,291**	5,670,974
Listed debt securities				**3,379,012**	3,920,561
Unlisted debt securities				**2,263,279**	1,750,413
				5,642,291	5,670,974

26.1 Five-year callable bonds

The five-year callable bond BW25, issued on 15 August 2015, interest is paid semi-annually in February and August of each year. This bond qualifies as Tier II capital for the Group. BW 25 was issued under Bank Windhoek's Medium Term Note Programme, a programme registered with the Johannesburg and Namibian Stock Exchanges.

The five-year callable bond issued by Bank Gaborone bear interest at Bank of Botswana Certificate rate plus 1.6 % per annum for the first five years plus a stepped up margin of 2.1 % thereafter and mature on 31 October 2021. Interest is paid quarterly in arrears. The debt is guaranteed by the shareholder of reference, Capricorn Investment Holdings Ltd.

26.2 Senior debt – unsecured

New debt securities issued in the current year includes BWFI23 and BWJI24.

Interest on CGL001, BWJj19, BWZj19, BWZ20A, BWJi20, BWJl21G, BWZj21, BWJd21, BWZ21B, BWJH22, BWJK22, BWZJ23, BWJI24, BWJ1e27 and BWJ2e27 is paid quarterly. Interest on BWFj18, BWFd19 and BWFH22 are paid semi-annually on 25 April and 25 October, while interest on BWFh19 is paid semi-annually on 22 February and 22 August, and BWFI23 is paid semi-annually on 30 March and 30 September. Interest on BWRj21 is paid semi-annually on 15 April and 15 October, while interest on BWFk22 is paid semi-annually on 21 May and 21 November.

The instruments mentioned above are under Bank Windhoek's Medium Term Note Programme, a programme registered with the Johannesburg and Namibian Stock Exchanges.

CGL001 mentioned above is under the Capricorn Group Medium Term Note Programme, a programme registered with the Johannesburg, Botswana and Namibian Stock Exchanges. Interest is paid quarterly on 8 January, 8 April, 8 July and 8 October.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

26. DEBT SECURITIES IN ISSUE (continued)

26.3 Preference shares

Interest on the 65,000 preference shares issued to First National Bank of Namibia is payable quarterly in arrears on the last working day of January, April, July and October.

Interest on the 40,000 preference shares issued to Capricorn Investment Holdings Ltd is payable quarterly in arrears on the last working day of January, April, July and October.

Interest on the 2,500 preference shares issued to Santam Namibia Ltd is payable quarterly in arrears on the last working date of February, May, August and November.

26.4 Debentures

Interest on the debentures is paid quarterly in arrears.

Debt securities in issue comprises subordinated debt, senior debt, preference shares and debentures with a combined nominal value of N$4.6 billion (2019: N$4.6 billion).

27. DEPOSITS

	Group	
	2020 N$'000	**2019 N$'000**
Current accounts	**7,677,228**	6,218,646
Savings accounts	**2,652,053**	2,276,992
Demand deposits	**6,276,981**	4,571,695
Term and notice deposits	**13,429,113**	13,172,707
Negotiable certificates of deposits ("NCDs")	**7,448,626**	9,035,899
Other deposits	**1,839,263**	1,708,786
	39,323,264	36,984,725

	Group			
	2020		**2019**	
	N$'000	**%**	**N$'000**	**%**
Maturity analysis within the customer current, savings, deposit account portfolio for the Group were as follows:				
Withdrawable on demand	**16,284,467**	**41.4**	13,486,633	36.5
Maturing within 1 month	**3,491,559**	**8.9**	3,297,831	8.9
Maturing after 1 month but within 6 months	**7,552,611**	**19.2**	8,030,380	21.7
Maturing after 6 months but within 12 months	**8,726,826**	**22.2**	6,982,083	18.9
Maturing after 12 months	**3,267,801**	**8.3**	5,187,798	14.0
	39,323,264	**100.0**	36,984,725	100.0

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

28. OTHER LIABILITIES

	Group		Company	
	2020 N$'000	2019 N$'000	**2020 N$'000**	2019 N$'000
Accounts payable and other accruals	**212,610**	162,762	**30,290**	17,994
Employee liabilities	**232,348**	191,275	**26,424**	26,168
– Employee-related accruals	**187,919**	159,159	**26,424**	26,168
– Provision for share-based payment liability	**8,378**	10,550	**–**	–
– PAYE payable	**10,367**	8,833	**–**	–
– Medical aid payable	**7,631**	6,861	**–**	–
– Pension payable	**6,580**	–	**–**	–
– Other	**11,473**	5,872	**–**	–
Indirect taxes	**19,249**	32,628	**372**	485
Derivative financial instruments – interest rate swaps	**10,863**	5,959	**–**	–
Policyholder liability (see Note 28.1)	**188,390**	153,978	**–**	–
Clearing, settlement and internal accounts	**306,218**	58,517	**–**	–
Lease liabilities (see Note 28.2)	**327,919**	–	**–**	–
	1,297,597	605,119	**57,086**	44,647
Current	**978,405**	451,141	**57,086**	44,647
Non-current	**319,192**	153,978	**–**	–
	1,297,597	605,119	**57,086**	44,647

Interest rate swaps are commitments to exchange one set of cash flows for another and result in an economic exchange of a fixed rate for a floating rate or vice versa. No exchange of principal takes place.

The notional principal amount of the outstanding interest rate swap contracts, included above and in other assets (note 18) at 30 June 2020 was N$173.5 million (2019: N$420.0 million).

28.1 Policyholder liabilities

The policyholder liability at year-end comprises:

	Group 2020 N$'000	Group 2019 N$'000	Company 2020 N$'000	Company 2019 N$'000
Claims IBNR liability	**10,106**	8,495	**–**	–
Unearned premium reserve	**178,284**	145,483	**–**	–
	188,390	153,978	**–**	–
Reconciliation of the policyholder liability:				
Opening balance	**153,978**	90,597	**–**	–
Allocation to the IBNR liability	**1,610**	1,001	**–**	–
Transfer to unearned premium reserve	**32,802**	62,380	**–**	–
	188,390	153,978	**–**	–

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

28. OTHER LIABILITIES

	Group 2020 N$'000	Group 2019 N$'000	Company 2020 N$'000	Company 2019 N$'000
28.2 Lease liabilities				
Maturity analysis – contractual undiscounted cash flows				
– Within one year	70,118	–	–	–
– Later than one year but not later than five years	163,510	–	–	–
– Later than five years	94,291	–	–	–
Total undiscounted lease liabilities	327,919	–	–	–
Lease liabilities included in statement of financial position	327,919	–	–	–
Current	70,118	–	–	–
Non-current	257,801	–	–	–

The Group leases various offices, branches and houses. Rental contracts are typically made for fixed periods of five to 10 years, but may have extension options. The lease terms do not contain restrictions on the Group's activities concerning further leasing, distribution of dividends or obtaining additional funding.

The weighted average lessee's incremental borrowing applied to the lease liabilities on 1 July was 7.64 %.

	Group 2020 N$'000	Group 2019 N$'000	Company 2020 N$'000	Company 2019 N$'000
Amounts recognised in profit or loss				
Interest on lease liabilities	29,230	–	–	–
Variable lease payments not included in measurement of lease liabilities	–	–	–	–
Expenses relating to short-term leases	2,883	–	–	–
Expenses relating to leases of low value assets, excluding short-term lease of low-value assets	–	–	–	–
	32,113	–	–	–
Amounts recognised in statement of cash flows				
Total cash outflow for leases	89,617	–	–	–
Interest rate sensitivities				

The following interest rate sensitivity is based on the effect of changes to the incremental borrowing rate over a 12-month period on the interest expense on lease liabilities.

	Group 2020 N$'000	Group 2019 N$'000	Company 2020 N$'000	Company 2019 N$'000
100 basis points increase				
– Increase in interest expense on lease liabilities	1,867	–	–	–
100 basis points decrease				
– Decrease in interest expense on lease liabilities	2,788	–	–	–

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

29. DEFERRED INCOME TAX

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 32 % (2019: 32 %).

The movement on the deferred income tax account is as follows:

	Group		Company	
	2020 N$'000	2019 N$'000	**2020 N$'000**	2019 N$'000
Deferred tax (asset)/liability as at 1 July	**(107,502)**	(34,293)	**(22,376)**	(6,245)
IFRS 9 first-time adoption	**–**	(31,366)	**–**	(7,798)
Restated opening as at 1 July	**(107,502)**	(65,659)	**(22,376)**	(14,043)
Charge to profit or loss (note 11)	**52,756**	(41,843)	**11,659**	(8,333)
Accelerated tax depreciation and amortisation	**8,172**	4,731	**–**	–
Loans and receivables	**(64,417)**	11,368	**–**	–
Government stock and other securities	**5,395**	14,099	**–**	–
Prepaid expenses	**(789)**	4,938	**–**	–
Accruals	**(9,040)**	(3,129)	**(193)**	(3,870)
Loan loss impairment	**107,830**	(82,750)	**10,700**	(2,902)
Change in the tax rate	**–**	108	**–**	–
Assessed loss	**20,261**	11,123	**1,152**	(2,340)
Other	**(14,656)**	(2,331)	**–**	779
Deferred tax asset as at 30 June	**(54,746)**	(107,502)	**(10,717)**	(22,376)
Deferred income tax assets and liabilities are attributable to the following items:				
Deferred income tax liability				
Accelerated tax depreciation and amortisation	**81,043**	89,215	**–**	–
Government stock and other securities	**12,121**	17,516	**–**	–
Prepaid expenses	**12,055**	11,266	**–**	–
Other temporary differences	**565**	–	**–**	–
Change in the tax rate	**–**	108	**–**	–
	105,784	118,105	**–**	–
Deferred income tax asset				
Accruals	**34,818**	25,778	**8,974**	8,781
Loan loss impairment	**26,070**	133,900	**–**	10,700
Assessed loss	**7,169**	27,430	**1,743**	2,895
Derivative financial instruments	**4,845**	6,814	**–**	–
Unrealised foreign exchange gains or losses	**1,475**	14,441	**–**	–
Loans and receivables	**80,311**	15,894	**–**	–
Other temporary differences	**5,842**	1,350	**–**	–
	160,530	225,607	**10,717**	22,376
Net deferred income tax asset	**(54,746)**	(107,502)	**(10,717)**	(22,376)

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

29. DEFERRED INCOME TAX (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

	Group		Company	
	2020 N$'000	2019 N$'000	**2020 N$'000**	2019 N$'000
Deferred tax liability				
Current	**24,345**	28,890	**–**	–
Non-current	**81,439**	89,215	**–**	–
Total	**105,784**	118,105	**–**	–
Deferred tax asset				
Current	**147,087**	141,085	**8,974**	22,376
Non-current	**13,443**	84,522	**1,743**	–
Total	**160,530**	225,607	**10,717**	22,376

30. POST-EMPLOYMENT BENEFITS

	Group		Company	
	2020 N$'000	2019 N$'000	**2020 N$'000**	2019 N$'000
30.1 Severance pay liability				
A valuation was performed for 30 June 2020 by an independent actuary on the Group's liability with respect to severance pay. The benefit is not funded.				
The amount recognised in the statement of financial position is determined as follows:				
Present value of unfunded obligation (non-current)	**14,929**	12,232	**1,149**	–
The movement in the severance pay obligation over the year is as follows:				
As at 1 July	**12,232**	11,440	**–**	–
Current service costs	**1,044**	1,302	**–**	–
Interest cost	**1,095**	965	**–**	–
Past service cost	**558**	–	**1,149**	–
Benefits paid	**–**	(1,475)	**–**	–
As at 30 June	**14,929**	12,232	**1,149**	–
The amounts recognised in the statement of comprehensive income are as follows:				
Current service costs	**1,044**	1,302	**–**	–
Past service cost	**558**	–	**1,149**	–
Interest cost	**1,095**	965	**–**	–
	2,697	2,267	**1,149**	–
The principal actuarial assumptions used were as follows:	**%**	%	**%**	
Discount rate	**7.0**	8.5	**7.0**	–
Inflation rate	**2.5**	5.4	**2.5**	–
Salary increases	**3.5**	6.4	**3.5**	–
The following sensitivity of the overall liability to changes in principal assumption is:				
Salary increase 1 % lower per annum	**622**	565	**54**	–
Salary increase 1 % higher per annum	**686**	636	**59**	–
Inflation increase 1 % lower per annum	**676**	477	**80**	–
Inflation increase 1 % higher per annum	**745**	537	**88**	–
Discount increase 1 % lower per annum	**676**	750	**80**	–
Discount increase 1 % higher per annum	745	845	**88**	–

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

30. POST-EMPLOYMENT BENEFITS (continued)

30.2 Medical aid scheme

The Group has no liability in respect of post-retirement medical aid contributions.

30.3 Pension schemes

All full-time permanent employees are members of the CIH Group Retirement Fund, a defined contribution plan, which has been registered in Namibia in accordance with the requirements of the Pension Funds Act. The fund is governed by the Pension Funds Act, 1956, which requires a statutory actuarial valuation every three years. The latest statutory actuarial valuation was carried out on 31 March 2018 and in the actuary's opinion the fund was in a sound financial position at that date. The valuation confirmed that the value of the assets in the fund exceeded the value of the actuarially determined liabilities.

The Group currently contributes 12% of basic salary to the fund, while the members contribute 7.5%. Post-employment benefits are classified as non-current liabilities.

31. SHARE CAPITAL AND PREMIUM

	Group		Company	
	2020 N$'000	2019 N$'000	**2020 N$'000**	2019 N$'000
Authorised share capital				
600,000,000 ordinary shares of 2.5 cents each	**15,000**	15,000	**15,000**	15,000
1,000,000 redeemable preference shares of 1 cent each	**10**	10	**10**	10
35,000 Class A preference shares of 1 cent each	**0.35**	0.35	**0.35**	0.35
30,000 Class B preference shares of 1 cent each	**0.30**	0.30	**0.30**	0.30
Issued ordinary share capital				
Balance as at 1 July	**12,980**	12,980	**12,980**	12,980
Shares issued during the year	**–**	–	**–**	–
Balance as at 30 June	**12,980**	12,980	**12,980**	12,980
Share premium				
Balance as at 1 July	**765,566**	765,566	**765,566**	765,566
Shares issued during the year	**–**	–	**–**	–
Balance at 30 June	**765,566**	765,566	**765,566**	765,566
Less: Treasury shares	**(60,468)**	(58,244)	**(17,879)**	(13,039)
Total ordinary share capital and premium	**718,078**	720,302	**760,667**	765,507
Issued number of ordinary shares reconciliation ('000):				
Issued number of shares at the beginning of the year	**519,184**	519,184	**519,184**	519,184
Shares issued during the year	**–**	–	**–**	–
Issued number of shares at the end of the year	**519,184**	519,184	**519,184**	519,184
Less: Treasury shares	**(7,239)**	(7,068)	**(1,253)**	(951)
Total number of ordinary shares issued at year-end	**511,945**	512,116	**517,931**	518,233

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

31. SHARE CAPITAL AND PREMIUM (continued)

Issued preference share capital

The company has 35,000 Class A and 30,000 Class B preference shares in issue. Interest is payable quarterly in arrears at the end of January, April, July and October. The preference shares are classified as a liability and disclosed in note 26 (debt securities in issue).

Unissued shares

All the unissued shares are under the control of the directors in terms of a general authority to allot and issue them on such terms and conditions and at such time as they deem fit. This authority expires at the forthcoming annual general meeting on 27 October 2020, when the authority can be renewed. Refer to the directors' report.

The company's total number of issued ordinary shares at year-end was 519,184,399 (2019: 519,184,399). All issued shares are fully paid up.

32. NET ASSET VALUE PER SHARE

	Group	
	2020	**2019**
Net asset value per ordinary share (cents)		
Net assets (excluding non-controlling interest) (N$'000)	**6,308,105**	5,815,396
Weighted average number of ordinary shares in issue during the year ('000)	**511,945**	512,116
Net asset value per share (cents)	**1,232**	1,136

33. SHARE–BASED PAYMENTS

The Group operates two equity-settled share-based compensation plans: (1) a share appreciation rights plan and (2) a conditional share plan, under which the entities within the Group receive services from employees as consideration for equity instruments (shares) of Capricorn Group (refer to the remuneration report (unaudited) for details of each plan).

The total expense for the share-based compensation plans is N$12.5 million in 2020 (2019: N$11.8 million), refer to note 8.

Share appreciation rights ("SAR")

Share appreciation rights ("SAR") are granted to executive directors and to selected employees for no consideration (exercise price of zero). The number of Capricorn Group shares to which each employee is entitled upon the exercise of the SAR will be calculated with reference to the increase in the value of the employer company or Capricorn Group's share price over the period from grant date to the exercise date. SAR are conditional on the employee completing three years of service after grant date (the vesting period), and subject to the relevant employer company achieving its predetermined performance conditions over the performance period. SAR are exercisable from the vesting date and have a contractual term of five years. The Group has no legal or constructive obligation to repurchase or settle the SAR in cash.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

33. SHARE–BASED PAYMENTS (continued)

Share appreciation rights ("SAR") (continued)

Details of the number of SAR outstanding ('000) are as follows:

	Capricorn Group	Bank Windhoek	Capricorn Asset Management	Capricorn Unit Trust Management	Capricorn Investment Holdings (Botswana)	Total
30 June 2020						
Opening balance	**585**	**667**	**174**	**–**	**146**	**1,572**
Granted	**269**	**242**	**107**	**–**	**66**	**684**
Vested	**(106)**	**(170)**	**(38)**	**–**	**(43)**	**(357)**
Closing balance	**748**	**739**	**243**	**–**	**169**	**1,899**
30 June 2019						
Opening balance	477	552	130	36	131	1,326
Granted	210	240	95	–	62	607
Vested	(62)	(75)	(51)	(36)	(47)	(271)
Forfeitures	(40)	(50)	–	–	–	(90)
Closing balance	585	667	174	–	146	1,572

SARs issued in September 2015 vested in September 2018 and were exercised during the current financial year.

No SAR expired during the periods covered by the above tables.

SARs outstanding ('000) at the end of the year have the following vesting and expiry dates:

Grant date	Vest date	Expiry date	2020	2019
September 2016	September 2019	September 2021	**–**	356
September 2017	September 2020	September 2022	**608**	608
September 2018	September 2021	September 2023	**608**	608
September 2019	September 2022	September 2024	**683**	–
			1,899	1,572
The weighted average remaining contractual life of options outstanding at the end of the year			**3 years**	3.2 years

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

33. SHARE–BASED PAYMENTS (continued)

Share appreciation rights ("SAR") (continued)

The fair value of SAR granted during the year was determined by using the American Call Option valuation model. The significant inputs into the model are summarised in the table below. Refer to note 8 for the total expense recognised in profit or loss for SAR granted to directors and employees.

	Capricorn Group
30 June 2020	
Spot and strike price (N$)	**16.00**
Risk-free rate	**7.8%**
Dividend yield	**4.0%**
Volatility	**30%**
Membership attrition	**5%**
30 June 2019	
Spot and strike price (N$)	16.89
Risk-free rate	8.4 %
Dividend yield	3.8 %
Volatility	30 %
Membership attrition	5 %

Conditional share plan ("CSP")

Capricorn Group shares are granted to selected employees for no consideration. The allocation of shares are conditional on the employee completing three years of service after grant date (the vesting period). The Group has no legal or constructive obligation to repurchase or settle the shares in cash.

Details of the number of shares outstanding are as follows:

	2020 No. of CSPs '000	2019 No. of CSPs '000
Opening balance	**1,726**	1,354
Granted	**831**	986
Vested	**(221)**	(306)
Forfeited	**(14)**	(308)
Closing balance	**2,322**	1,726

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

33. SHARE–BASED PAYMENTS (continued)

Conditional share plan ("CSP") (continued)

Outstanding number of CSPs ('000) expected to vest as follows:

Grant date	Vest date	2020	2019
September 2016	September 2019	**–**	221
September 2017	September 2020	**536**	519
September 2018	September 2021	**978**	986
September 2019	September 2022	**808**	–
		2,322	1,726

The fair value of shares granted during the year was determined with reference to the listed share price at grant date of N$16.00 (2019: N$16.89) and taking into account a membership attrition of 5 % (2019: 5 %). Refer to note 8 for the total expense recognised in profit or loss for shares granted to executive directors and employees.

34. NON–DISTRIBUTABLE RESERVES

		Group		Company	
		2020 N$'000	2019 N$'000	**2020 N$'000**	2019 N$'000
34.1	**Credit risk reserve**				
	Balance at 1 July	**34,829**	215,911		
	Transfer to retained earnings: Initial adoption of IFRS 9	**–**	(194,536)		
	Adjusted balance at 1 July	**34,829**	21,375		
	Transfer to retained earnings	**(34,829)**	13,454		
	Balance as at 30 June	**–**	34,829		
	The regulatory credit risk reserve was introduced in order to meet the regulatory requirements for the loan loss portfolio impairment of Bank Windhoek Ltd.				
34.2	**Insurance fund reserve**				
	Balance at 1 July	**51,125**	53,742		
	Transfer from retained earnings	**2,975**	(2,617)		
	Balance as at 30 June	**54,100**	51,125		
	The insurance reserve was created to fund a portion, net of deferred tax, of the regulatory requirement to hold a certain level of insurance specific for banking risk.				
34.3	**Net investment in foreign subsidiary reserve**				
	Net exchange differences on net investments	**(19,483)**	–	**(19,483)**	–
	Balance as at 30 June	**(19,483)**	–	**(19,483)**	–
	Total non-distributable reserves	**34,617**	85,954	**(19,483)**	–

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

35. DISTRIBUTABLE RESERVES

		Group 2020 N$'000	Group 2019 N$'000
35.1	**Fair value reserve**		
	Balance as at 1 July	695	129,811
	Change in value of financial assets at fair value through other comprehensive income/ Revaluation of available-for-sale equity instruments	26,291	7,263
	Transfer (to)/from reserves	(25,506)	–
	Reclassification to retained earnings/profit or loss	–	(136,379)
	Balance as at 30 June	1,480	695
35.2	**General banking reserve**		
	Balance as at 1 July	3,843,797	3,814,879
	Transfer from retained earnings	2,296	28,918
	Balance as at 30 June	3,846,093	3,843,797
	The general banking reserve is maintained to fund future expansion.		
35.3	**Foreign currency translation reserve**		
	Balance as at 1 July	5,000	4,536
	Revaluation for the year	54,889	1,339
	Change in shareholding	–	–
	Transfer of FCTR	2	(875)
	Balance as at 30 June	59,891	5,000

		Group 2020 N$'000	Group 2019 N$'000	Company 2020 N$'000	Company 2019 N$'000
35.4	**Retained earnings**				
	Balance as at 1 July	1,136,427	654,458	887,841	526,966
	Initial adoption – IFRS 9	–	(235,947)	–	(16,572)
	Restated balance at the beginning of the reporting period	1,136,427	418,511	887,841	510,394
	Profit for the year	760,973	929,889	179,409	688,958
	Transfer to reserves	55,064	(39,755)	–	–
	Transfer from reserves – Reclassifications to retained earnings	–	136,379	–	–
	Profit on sale of treasury shares	1,917	(1,042)	–	–
	Dividends paid	(338,076)	(307,555)	(342,662)	(311,511)
	Change in ownership interest in subsidiary	2,436	–	–	–
	Balance as at 30 June	1,618,741	1,136,427	724,588	887,841

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

35. DISTRIBUTABLE RESERVES (continued)

		Group		Company	
		2020 N$'000	**2019 N$'000**	**2020 N$'000**	**2019 N$'000**
35.5	**Share-based compensation reserve**				
	Balance as at 1 July	**23,221**	16,847	**14,922**	10,640
	Share-based payment charges recognised in equity	**12,480**	11,802	**6,832**	5,081
	Vesting of shares	**(6,496)**	(5,428)	**(1,220)**	(799)
	Balance as at 30 June	**29,205**	23,221	**20,534**	14,922
	The share-based compensation reserve is used to recognise: • the grant date fair value of share appreciation rights issued to employees but not exercised (refer to note 33) • the grant date fair value of conditional shares issued to employees (refer to note 33)				
	Total distributable reserves	**5,555,410**	5,009,140	**745,122**	902,763

36. DIVIDENDS PER SHARE

Normal dividends amounting to N$342.7 million (2019: N$311.5 million) were declared and paid by the company during the year under review. The normal dividends declared represent interim and final dividends per share as follows:

	Group 2020 N$'000	Group 2019 N$'000	Company 2020 N$'000	Company 2019 N$'000
Declared during the financial year				
Interim dividend per share (cents)			**30**	30
Declared after the financial year				
Final dividend per share (cents)*			**20**	36
Total dividend per share (cents)			**50**	66
Dividends declared during the year	**363,218**	324,957	**342,662**	311,511
Dividends paid during the year	**(363,218)**	(324,957)	**(342,662)**	(311,511)
Dividends payable at year-end	**–**	–	**–**	–

* *Refer also to events subsequent to year-end in the directors' report for details of the final dividend declared after year-end.*

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

37. STATEMENT OF CASH FLOWS DISCLOSURE INFORMATION

		Group		Company	
		2020 N$'000	2019 N$'000	**2020 N$'000**	2019 N$'000
37.1	**Receipts from customers**				
	Interest receipts	**4,625,806**	4,104,759	**–**	–
	Commission and fee receipts	**926,914**	959,965	**–**	–
	Other income received	**391,031**	466,273	**90,352**	59,882
	Gross written premiums	**185,795**	192,526	**–**	–
		6,129,546	5,723,523	**90,352**	59,882
37.2	**Payments to customers, suppliers and employees**				
	Interest payments	**1,978,839**	1,957,230	**–**	–
	Cash payments to employees and suppliers	**1,650,189**	1,619,466	**140,253**	119,979
	Gross insurance contract claims	**29,157**	25,540	**–**	–
	Other borrowings coupon payments	**83,728**	140,793	**6,390**	30,227
	Debt securities coupon payments	**447,909**	379,811	**137,599**	86,450
		4,189,822	4,122,840	**284,242**	236,656
37.3	**Cash generated from/(utilised in) operations**				
	Profit before income tax from continuing operations	**1,366,890**	1,422,901	**191,068**	680,625
	Dividends received	**(97,350)**	(30,236)	**(463,758)**	(941,802)
	Other borrowings coupon payments	**(83,728)**	(140,793)	**(6,390)**	(30,227)
	Debt securities coupon payments	**(447,909)**	(379,811)	**(137,599)**	(86,450)
	Adjusted for non-cash items:				
	– Effective interest on debt securities	**437,813**	437,055	**139,583**	96,531
	– Effective interest on deposits	**42,535**	67,934	**–**	–
	– Accrued interest on other borrowings	**85,256**	140,202	**6,390**	30,227
	– Interest receivable	**–**	–	**(90,607)**	(65,994)
	– Adjustment to fair value of financial instruments	**(101,480)**	(100,319)	**(16,688)**	(8,340)
	– Amortisation of intangible assets	**48,080**	35,430	**–**	–
	– Depreciation of property and equipment	**128,967**	66,913	**–**	–
	– Share-based payment expense	**12,480**	11,802	**6,831**	5,081
	– Profit on sale of residential units	**–**	(1,822)	**–**	–
	– Loss/(Profit) on sale of property and equipment	**2,380**	(566)	**–**	–
	– Impairment charges on investments	**–**	–	**–**	112,352
	– Credit impairment losses	**304,371**	114,547	**170,475**	15,721
	– Provision for post-employment benefits	**2,697**	2,267	**–**	–
	– Share of associates' results after tax	**(63,711)**	(72,657)	**–**	–
	– Share of joint arrangements' results after tax	**(2,817)**	(3,675)	**–**	–
	– Net exchange differences	**206,387**	–	**–**	–
	– Other	**98,863**	31,511	**6,805**	15,502
		1,939,724	1,600,683	**(193,890)**	(176,774)
	In the statement of cash flows, proceeds from sale of property and equipment comprise:				
	Net book value (note 23)	**2,492**	663	**–**	–
	(Loss)/Profit on sale of property and equipment	**(2,380)**	566	**–**	–
	Proceeds from sale of property and equipment	**112**	1,229	**–**	–

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

37. STATEMENT OF CASH FLOWS DISCLOSURE INFORMATION (continued)

		Group		Company	
		2020 N$'000	2019 N$'000	**2020 N$'000**	2019 N$'000
37.4	**Income taxes paid**				
	Amounts receivable/(payable) as at 1 July	**107,497**	62,341	**2,717**	1,558
	Current tax charged to profit or loss	**(352,850)**	(428,648)	**–**	–
	Taxes not yet received	**–**	–	**986**	1,159
	Amounts (receivable)/payable as at 30 June	**(108,147)**	(107,497)	**(3,703)**	(2,717)
	Income taxes paid during the year	**(353,500)**	(473,804)	**–**	–
37.5	**Acquisition of subsidiaries**				
	Cash portion				
	Cash consideration paid	**–**	–	**(7,415)**	–
	Net cash outflow on acquisition of subsidiary	**–**	–	**(7,415)**	–

38. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

		Group	
		2020 N$'000	2019 N$'000
38.1	**Capital commitments**		
	Authorised but not contracted for:		
	Property and equipment	**101,156**	81,670
	Intangible assets	**126,457**	110,975
	Contracted for but not yet incurred:		
	For completion of residential units – Ondangwa phase 3	**–**	1,743
		227,613	194,388
	Capital commitments for Ondangwa phase 3 relate to the development of residential units by Namib Bou (Pty) Ltd.		
	Funds to meet these commitments will be provided from Group resources.		
38.2	**Letters of credit**	**209,717**	230,143
38.3	**Liabilities under guarantees**	**1,345,544**	1,280,854
	Guarantees mainly consist of endorsements and performance guarantees.		
38.4	**Loan commitments**	**2,757,157**	1,699,163
38.5	**Operating lease commitments**		
	Office premises		
	– Not later than 1 year		91,545
	– Later than 1 year but not later than 5 years		111,362
	– Later than 5 years		642
			203,549

Notice periods on operating lease contracts vary between 1 to 6 months (2019: 1 to 6 months), operating lease contracts are not fixed and escalation clauses range between 6 % and 10 % (2019: 6 % and 10 %).

The Group has various operating lease agreements, of which the majority contain renewal options. The lease terms do not contain restrictions on the Group's activities concerning further leasing, distribution of dividends or obtaining additional funding.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

38. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

38.6 Pending litigations

There are a few pending legal or potential claims against the Group, the outcome of which cannot at present be foreseen. These claims are not regarded as material, either on an individual or aggregate basis.

39. CASH AND CASH EQUIVALENTS

	Group		Company	
	2020 N$'000	2019 N$'000	**2020 N$'000**	2019 N$'000
For the purpose of the statement of cash flows, cash and cash equivalents comprise the following balances with less than 90 days maturity:				
Cash and balances with the central banks – excluding mandatory reserve (note 13)	**537,601**	770,337	**387,857**	663,895
Treasury bills and government stock with a maturity of less than 90 days	**1,490,601**	1,405,178	**–**	–
Unit trusts and money market investments (note 14)	**2,314,333**	2,037,188	**716,953**	428,092
Placement with other banks (note 16)	**2,996,527**	1,673,421	**–**	–
Borrowings from other banks (note 24)	**(969,143)**	(72,760)	**–**	–
Cash and cash equivalents from continuing operations	**6,369,919**	5,813,364	**1,104,810**	1,091,987
Cash and cash equivalents from discontinued operations	**(92,102)**	(21,714)	**–**	–
	6,277,817	5,791,650	**1,104,810**	1,091,987

40. RELATED PARTIES

In accordance with IAS 24, the Group defines related parties as:

(i) The parent company
(ii) Subsidiaries
(iii) Associate companies
(iv) Entities that have significant influence over the Group. If an investor has significant influence over the Group that investor and its subsidiaries are related parties of the Group. The Group is Capricorn Group and its subsidiaries
(v) Post-retirement benefit funds (pension fund)
(vi) Key management personnel being the Capricorn Group board of directors and the Group's executive management team
(vii) Close family members of key management personnel (individual's spouse/domestic partner and children; domestic partner's children and dependants of individual or domestic partner)
(viii) Entities controlled, jointly controlled or significantly influenced by any individual referred to in (vi) and (vii)

Capricorn Group is listed on the Namibian Stock Exchange and is 43.1 % (2019: 43.1 %) owned by Capricorn Investment Holdings Ltd, which is incorporated in Namibia and 25.9 % (2019: 25.9 %) owned by Government Institutions Pension Fund, its non-listed major shareholders.

Details of subsidiaries, associates and joint arrangements are disclosed in notes 19, 20 and 21.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. No specific impairment has been recognised in respect of loans granted to key management personnel during the year under review (2019: nil).

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

40. RELATED PARTIES (continued)

During the year, the Group and company transacted with the following related parties:

Entity	Relationship	Type of transaction
Capricorn Investment Holdings Ltd	Major shareholder	Support services Banking relationship
Government Institutions Pension Fund	Major shareholder	Support services Banking relationship
Bank Windhoek Ltd	Subsidiary	Support services Banking relationship
Bank Windhoek Properties (Pty) Ltd	Subsidiary	Rental
BW Finance (Pty) Ltd	Subsidiary	Support services Banking relationship
Bank Windhoek Nominees (Pty) Ltd	Subsidiary	Custodian of third-party relationships
Capricorn Investment Holdings (Botswana) Ltd	Subsidiary	Banking relationship
Bank Gaborone Ltd	Subsidiary	Support services Banking relationship
Peo Micro (Pty) Ltd	Subsidiary	Banking relationship
CIH Insurance Brokers (Pty) Ltd	Subsidiary	Banking relationship
Capricorn Asset Management (Botswana) (Pty) Ltd	Subsidiary	Banking relationship
BG Insurance Agency (Pty) Ltd	Subsidiary	Banking relationship
Entrepo Holdings (Pty) Ltd	Subsidiary	Banking relationship Support services
Entrepo Life Ltd	Subsidiary	Banking relationship
Entrepo Finance (Pty) Ltd	Subsidiary	Banking relationship
Capricorn Asset Management (Pty) Ltd	Subsidiary	Support services Banking relationship
Capricorn Unit Trust Management Company Ltd	Subsidiary	Banking relationship
Capricorn Capital (Pty) Ltd	Subsidiary	Support services Banking relationship
Cavmont Capital Holdings Zambia Plc	Subsidiary	Support services Banking relationship
Mukumbi Investments Ltd	Subsidiary	Banking relationship
Cavmont Bank Ltd	Subsidiary	Support services Banking relationship
Namib Bou (Pty) Ltd	Subsidiary	Support services Banking relationship
Capricorn Mobile (Pty) Ltd	Subsidiary	Banking relationship
Capricorn Investment Group (Pty) Ltd	Subsidiary	Support services
Capricorn Hofmeyer (Pty) Ltd	Subsidiary	Property investment
Paratus Namibia Holdings Ltd	Associate	Banking relationship
Paratus Group Holdings Ltd	Associate	Banking relationship
Paratus Telecommunications (Pty) Ltd	Other related party	Banking relationship
Santam Namibia Ltd	Associate	Dividends Banking relationship Insurance relationship
Sanlam Namibia Holdings (Pty) Ltd	Associate	Dividends Banking relationship Insurance relationship
Namclear (Pty) Ltd	Joint venture	Technology services
Capricorn Group Employee Share Ownership Trust	Special purpose entity	Banking relationship
Capricorn Group Employee Share Benefit Trust	Special purpose entity	Banking relationship

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

40. RELATED PARTIES (continued)

		Group		Company	
		2020 N$'000	2019 N$'000	**2020 N$'000**	2019 N$'000
	The volumes of related party transactions and outstanding balances at year-end are as follows:				
40.1	**Trade and other receivables from related parties**				
	Major shareholders	**–**	–	**75**	–
	Subsidiaries	**–**	–	**44,184**	49,381
	Other indirect related parties	**10,267**	11,590	**10,267**	11,558
	Refer to note 18 for terms and conditions related to receivables from related parties.				
40.2	**Loans and advances to related parties**				
	Other indirect related parties	**24,587**	17,025	**–**	17,096
	Key management personnel	**18,967**	37,327	**–**	–
40.3	**Cash and cash equivalents held by related parties**				
	Subsidiaries	**–**	–	**387,857**	663,895
40.4	**Preference shares issued by related parties**				
	Subsidiaries	**–**	–	**294,848**	272,782
40.5	**Trade and other payables to related parties**				
	Subsidiaries	**–**	–	**10,894**	18,521
	Other indirect related parties	**–**	1,418	**–**	–
40.6	**Deposits from related parties**				
	Major shareholders	**52,360**	250,551	**–**	–
	Other indirect related parties	**85,228**	109,523	**–**	–
	Key management personnel	**1,243**	1,207	**–**	–
	All deposits are issued in accordance with the Group's normal terms and conditions.				
40.7	**Debt securities issued to related parties**				
	Major shareholders	**1,892,726**	1,381,501	**1,009,961**	506,374
	Other indirect related parties	**429,479**	431,227	**429,479**	431,227
	Refer to note 26 for the terms and conditions related to debt securities in issue.				
40.8	**Expenses paid to related parties**				
	Subsidiaries	**–**	–	**–**	1,576
	Other indirect related parties	**–**	–	**–**	–
40.9	**Interest and similar expenses paid to related parties**				
	Major shareholders	**60,489**	120,399	**47,374**	37,406
	Other indirect related parties	**37,798**	48,675	**32,730**	39,146
	Key management personnel	**27**	33	**–**	–
40.10	**Income received from related-party transactions**				
	Major shareholders	**800**	1,032	**800**	1,019
	Subsidiaries	**–**	–	**47,156**	45,367
	Other indirect related parties	**22,834**	20,017	**22,505**	19,698
	Income received from related-party transactions mainly relates to insurance-related income and inter-Group charges.				

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

40. RELATED PARTIES (continued)

		Group		Company	
		2020 N$'000	2019 N$'000	**2020 N$'000**	2019 N$'000
40.11	**Interest and similar income received from related parties**				
	Subsidiaries	**–**	–	**28,312**	37,357
	Other indirect related parties	**6,504**	1,835	**–**	–
	Key management personnel	**1,742**	1,215	**–**	–
40.12	**Dividends received on ordinary shares from related parties**				
	Subsidiaries	**–**	–	**365,158**	853,653
	Other indirect related parties	**99,462**	60,434	**99,462**	60,434
40.13	**Compensation paid to key management**				
40.13.1	***Executive management team***				
	Salaries	**14,633**	13,797		
	Short-term incentives	**14,491**	10,575		
	Long-term incentives	**5,670**	5,542		
	Contribution to defined contribution medical schemes	**615**	554		
	Contribution to defined contribution pension schemes	**850**	801		
	Share-based payment charges	**4,238**	4,772		
	Other allowances	**7,532**	7,191		
		48,029	43,232		

Compensation paid to key management comprises remuneration and other employee benefits to the executive management team, which excludes executive directors' emoluments.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

40. RELATED PARTIES (continued)

40.13 Compensation paid to key management (continued)

40.13.2 Non-executive directors' emoluments

	Directors' fees		
	Paid by company N$'000	Paid by subsidiary N$'000	Total N$'000
30 June 2020			
Non-executive directors			
Black, K B	**339**	**237**	**576**
Brandt, J C	**297**	**423**	**720**
Fourie, D G	**712**	**1,209**	**1,921**
Gaomab II, H M	**320**	**–**	**320**
Menetté, G	**267**	**–**	**267**
Nakazibwe-Sekandi, G	**462**	**278**	**740**
Reyneke, D J	**448**	**–**	**448**
Schimming-Chase, E M	**300**	**–**	**300**
Solomon, E	**427**	**–**	**427**
Swanepoel, J J (Group chairman)	**1,880**	**1,860**	**3,740**
Total	**5,452**	**4,007**	**9,459**
30 June 2019			
Non-executive directors			
Black, K B	342	214	556
Brandt, J C	264	397	661
Fourie, D G	745	949	1,694
Gaomab II, H M	256	–	256
Menetté, G	136	–	136
Nakazibwe-Sekandi, G	420	208	628
Reyneke, D J	408	–	408
Schimming-Chase, E M	222	–	222
Swanepoel, J J (Group chairman)	1,800	2,206	4,006
Total	4,593	3,974	8,567

Directors' fees consist of a quarterly retainer and a fee for attendance of meetings. No fees relating to other services (e.g. commission) have been paid during the 2020 and 2019 financial years.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

40. RELATED PARTIES (continued)

40.13 Compensation paid to key management (continued)

40.13.3 Executive directors' emoluments

	Salary N$'000	Short-term incentives N$'000	Long-term incentives[1] N$'000	Pension and medical contributions N$'000	Other allowances and fringe benefits N$'000	Total N$'000
30 June 2020						
Executive directors						
Prinsloo, M J	3,033	3,200	914	206	1,079	8,432
Esterhuyse, J J	1,461	1,600	481	169	703	4,414
	4,494	4,800	1,395	375	1,782	12,846

	Salary N$'000	Short-term incentive N$'000	Long-term incentives[1] N$'000	Pension and medical contributions N$'000	Other allowances and fringe benefits N$'000	Total N$'000
30 June 2019						
Executive directors						
Prinsloo, M J	2,889	2,250	921	199	1,079	7,338
Esterhuyse, J J	1,385	1,200	433	163	653	3,834
	4,274	3,450	1,354	362	1,732	11,172

[1] *Expected value of the long-term incentives awards.*

The executive directors did not receive any other fees for services as directors or any emoluments other than that disclosed.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

40. RELATED PARTIES (continued)

40.14 Directors' holdings in Capricorn Group shares

		2020		2019	
	Number of ordinary shares acquired/ (sold) during the current year	Number of ordinary shares at year-end	% held	Number of ordinary shares at year-end	% held
Direct holding:					
Black, K B	25,042	72,012	0.01%	46,970	0.01 %
Esterhuyse JJ[1]	10,911	479,188	0.09%	468,277	0.09 %
Fourie, D G	–	150,000	0.03%	150,000	0.03 %
Gaomab II, H M	–	2,000	0.00%	2,000	0.00 %
Nakazibwe-Sekandi, G	–	1,445,784	0.28%	1,445,784	0.28 %
Prinsloo, M J[1]	48,899	2,363,647	0.46%	2,314,748	0.45 %
Schimming-Chase, E M	–	1,200	0.00%	1,200	0.00 %
Indirect holding:					
Swanepoel, J J (Group chairman)			1.82%		4.15 %
Brandt, J C			18.36%		20.62 %
Prinsloo, M J			0.11%		0.11 %

[1] *Movement due to maturing of shares under the share purchase scheme and vesting of options awarded under the long-term incentive schemes.*

All shareholdings are beneficial.

No change occurred to the above shareholdings between year-end and not more than one month prior to the date of the notice of the AGM.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

41. ASSETS UNDER CUSTODY

As at year-end, the Group has no assets under custody (2019: nil).

42. CONSOLIDATED STRUCTURED ENTITIES

The Group assesses whether it has control over structured entities in terms of IFRS 10. Where the Group has control over a structured entity it is consolidated in terms of IFRS 10. The Group's structured entities are the Capricorn Group Employee Share Ownership Trust and Capricorn Group Employee Share Benefit Trust.

The Group has control over these structured entities, as the trustees are appointed by the Group's board of directors. The structured entities are therefore consolidated.

No contractual obligation exists for the Group to provide any financial or other support to the consolidated structured entities. The Group will provide financial support from time to time for the purchase of shares for the share incentive schemes. As at the end of the 2019 financial year, the Group was providing financial support of N$11.8 million (2018: N$17.1 million) to the Capricorn Group Employee Share Ownership Trust.

43. SEGMENT INFORMATION

The Group considers its banking operations in Namibia and Botswana as major operating segments; the other major operating segment is the microlending activities in Namibia. Other components include property development, asset management, unit trust management and the Zambian banking operations. However, these components each contribute less than 10 % to the Group's revenue, assets and profit for the year. Therefore, the Group has no significant components other than banking and microlending in Namibia and banking in Botswana. This is in a manner consistent with the internal reporting provided to the chief operating decision-maker, identified as the chief executive officer of the Group. The chief operating decision-maker is the person that allocates resources to and assesses the performance of the operating segment(s) of an entity.

In assessing the performance of the banking operations, the Group chief executive officer reviews the various aggregated revenue streams, the total costs and the assets and liabilities related to the banking activities. The financial information included below is based on the banks' audited annual financial statements which complies with IFRS measurement and recognition criteria. In order to reconcile to the statement of comprehensive income and statement of financial position all entities that do not qualify as separate segments, as well as consolidation journal entries, are included in the 'other' column.

The banking operations in Zambia were classified as a discontinued operation for the current financial year. A term sheet has been signed with a third-party bank for the sale of the subsidiary. Information about this discontinued segment is provided in note 44.

43.1 Entity-wide disclosures

43.1.1 Products and services

Operating segments

Banking operations – Namibia

Microlending and related activities – Namibia

Banking operations – Botswana

Brand

Bank Windhoek Ltd ("BW")

Entrepo Holdings (Pty) Ltd

Bank Gaborone Ltd ("BG")

Description

BW & BG – Corporate and executive banking, retail banking services and specialist finance.

Entrepo – Microlending and life insurance services.

Product and services

Bank Windhoek Ltd and Bank Gaborone Ltd conduct business as registered banks and provide comprehensive banking services. Clients include both individuals and corporate clients.

Entrepo is an investment holding company, its subsidiaries are engaged in life insurance and financial services in Namibia.

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

43. SEGMENT INFORMATION (continued)

43.1.2 *Geographical segments*

There are no other material segment operations outside Namibia and Botswana.

43.1.3 *Major customers*

Segment reporting requires the disclosure of an entity's reliance on its major customers, if revenue from transactions with a single customer is 10 % or more of the entity's revenue. The Group does not have customers that contribute 10 % or more to its revenue and is therefore not reliant on a single major customer.

43.2 Financial information

	Banking – Namibia		Microlending and related activities – Namibia		Banking – Botswana		Other		Group	
	2020 N$'000	2019 N$'000	**2020 N$'000**	2019 N$'000	**2020 N$'000**	2019 N$'000	**2020 N$'000**	2019 N$'000	**2020 N$'000**	2019 N$'000
Net interest income – external	**1,616,055**	1,610,378	**111,835**	82,017	**331,711**	233,481	**21,298**	206,997	**2,080,899**	2,132,873
Net interest income – internal	**(31,748)**	(31,969)	**70,664**	66,829	**15,293**	8,631	**(54,209)**	(43,491)	**–**	–
Impairment charges on loans and advances	**(207,090)**	(94,726)	**(26,992)**	(15,460)	**(70,289)**	(13,512)	**–**	9,151	**(304,371)**	(114,547)
Net interest income after loan impairment charges	**1,377,217**	1,483,683	**155,507**	133,386	**276,715**	228,600	**(32,911)**	172,657	**1,776,528**	2,018,326
Non-interest income	**1,066,608**	1,041,600	**123,238**	103,878	**76,957**	79,083	**157,908**	134,923	**1,424,711**	1,359,484
Fee and commission income	**883,919**	865,657	**–**	–	**43,020**	49,101	**(25)**	45,207	**926,914**	959,965
Net trading income	**162,653**	160,259	**964**	–	**27,236**	21,321	**6,473**	(37,787)	**197,326**	143,793
Other operating income	**20,036**	15,684	**–**	369	**6,701**	6,287	**16,040**	11,690	**42,777**	34,030
Net insurance premium income	**–**	–	**152,993**	130,149	**–**	–	**–**	–	**152,993**	130,149
Net claims and benefits paid	**–**	–	**(30,719)**	(26,640)	**–**	–	**–**	–	**(30,719)**	(26,640)
Asset management and administration fee	**–**	–	**–**	–	**–**	2,374	**135,420**	115,813	**135,420**	118,187
Operating income	**2,443,825**	2,525,283	**278,745**	237,264	**353,672**	307,683	**124,997**	307,580	**3,201,239**	3,377,810
Operating expenses	**(1,443,492)**	(1,404,415)	**(52,296)**	(40,447)	**(276,205)**	(228,836)	**(128,884)**	(378,340)	**(1,900,877)**	(2,052,038)
Operating profit	**1,000,333**	1,120,868	**226,449**	196,817	**77,467**	78,847	**(3,887)**	(70,760)	**1,300,362**	1,325,772
Share of joint arrangement and associates' results after tax	**2,817**	3,675	**–**	–	**–**	–	**63,711**	72,657	**66,528**	76,332
Profit before income tax	**1,003,150**	1,124,543	**226,449**	196,817	**77,467**	78,847	**59,824**	1,897	**1,366,890**	1,402,104
Income tax expense	**(281,702)**	(326,828)	**(23,819)**	(24,994)	**(23,261)**	(19,192)	**(26,013)**	(15,791)	**(354,795)**	(386,805)
Profit from continuing operations	**721,448**	797,715	**202,630**	171,823	**54,206**	59,655	**33,811**	(13,894)	**1,012,095**	1,015,299
Loss from discontinued operations	**–**	–	**–**	–	**–**	–	**(155,683)**	–	**(155,683)**	–
Profit for the period	**721,448**	797,715	**202,630**	171,823	**54,206**	59,655	**(121,872)**	(13,894)	**856,412**	1,015,299
Change in value of financial assets at fair value through other comprehensive income	**38,663**	7,263	**–**	–	**–**	–	**–**	–	**38,663**	7,263
Income tax expense	**(12,372)**	–	**–**	–	**–**	–	**–**	–	**(12,372)**	–
Exchange differences on translation of foreign operations	**–**	–	**–**	–	**55,813**	–	**(1,925)**	1,339	**53,888**	5,356
Exchange differences on translation of discontinued operations	**–**	–	**–**	–	**–**	–	**9,719**	–	**9,719**	(4,017)
Net exchange differences on net investments	**–**	–	**–**	–	**–**	–	**(19,483)**	–	**(19,483)**	–
Total comprehensive income	**747,739**	804,978	**202,630**	171,823	**110,019**	59,655	**(133,561)**	(12,555)	**926,827**	1,023,901

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

43. SEGMENT INFORMATION (continued)

43.2 Financial information (continued)

	Banking – Namibia		Microlending and related activities – Namibia		Banking – Botswana		Other		Group	
	2020 N$'000	2019 N$'000	2020 N$'000	2019 N$'000	2020 N$'000	2019 N$'000	2020 N$'000	2019 N$'000	2020 N$'000	2019 N$'000
ASSETS										
Cash and balances with the central bank	705,937	1,095,599	(7,487)	(4,168)	202,394	335,258	8,273	145,927	909,117	1,572,616
Financial assets at fair value through profit or loss	1,348,929	1,336,392	216,174	215,261	4,754	12,322	744,476	473,213	2,314,333	2,037,188
Financial assets at amortised cost	712,757	643,678	8,282	–	–	–	(8,282)	216,636	712,757	860,314
Financial assets at fair value through other comprehensive income	4,862,878	3,521,978	2,512	13,692	216,809	730,903	691,434	476,152	5,773,633	4,742,725
Due from other banks	1,442,751	862,394	–	–	1,727,475	811,027	(173,699)	50,622	2,996,527	1,724,043
Loans and advances to customers	32,691,865	31,290,543	1,218,528	1,030,432	6,682,504	5,456,672	(514,275)	271,936	40,078,622	38,049,583
Other assets	335,138	291,020	1,971	2,554	35,783	37,834	25,764	223,012	398,656	554,420
Current tax asset	97,552	76,919	5,327	–	1,263	9,649	6,262	22,981	110,404	109,549
Investment in associates	–	–	–	–	–	–	581,800	348,716	581,800	348,716
Interest in joint arrangements	–	11,016	–	–	–	–	–	–	–	11,016
Intangible assets	182,955	181,776	1,557	1,557	25,675	25,664	77,264	66,842	287,451	275,839
Property and equipment	446,262	199,658	2,298	1,042	158,744	65,439	(4,810)	18,305	602,494	284,444
Deferred tax asset	25,664	26,318	10,523	4,014	–	2,068	18,751	75,102	54,938	107,502
Assets held for sale	–	–	–	–	–	–	1,517,394	–	1,517,394	–
Total assets	42,852,688	39,537,291	1,459,685	1,264,384	9,055,401	7,486,836	2,970,352	2,389,444	56,338,126	50,677,955
LIABILITIES										
Due to other banks	902,052	72,756	–	–	240,790	4	(173,699)	172,943	969,143	245,703
Other borrowings	633,901	799,646	55,000	55,000	–	–	172,601	141,726	861,502	996,372
Debt securities in issue	3,188,274	3,746,604	–	–	462,510	289,261	1,991,507	1,635,109	5,642,291	5,670,974
Deposits	32,319,110	30,073,810	–	–	7,434,950	6,562,837	(430,796)	348,078	39,323,264	36,984,725
Other liabilities	830,775	327,339	703,522	655,200	228,179	60,413	(464,879)	(437,833)	1,297,597	605,119
Current tax liability	–	–	–	–	–	–	2,256	2,052	2,256	2,052
Deferred tax liability	–	–	–	–	192	–	–	–	192	–
Post-employment benefits	12,935	12,232	845	–	–	–	1,149	–	14,929	12,232
Liabilities held for sale	–	–	–	–	–	–	1,496,888	–	1,496,888	–
Total liabilities	37,887,047	35,032,387	759,367	710,200	8,366,621	6,912,515	2,595,027	1,862,075	49,608,062	44,517,177
EQUITY										
Share capital and premium	485,000	485,000	130,005	130,005	318,858	318,858	(215,785)	(213,561)	718,078	720,302
Non-distributable reserves	54,100	85,954	–	–	–	–	(19,483)	–	34,617	85,954
Distributable reserves	4,426,541	3,933,950	570,313	424,179	369,922	255,463	188,634	395,548	5,555,410	5,009,140
	4,965,641	4,504,904	700,318	554,184	688,780	574,321	(46,634)	181,987	6,308,105	5,815,396
Non-controlling interests in equity	–	–	–	–	–	–	421,959	345,382	421,959	345,382
Total shareholders' equity	4,965,641	4,504,904	700,318	554,184	688,780	574,321	375,325	527,369	6,730,064	6,160,778
Total equity and liabilities	42,852,688	39,537,291	1,459,685	1,264,384	9,055,401	7,486,836	2,970,352	2,389,444	56,338,126	50,677,955

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2020

44. DISCONTINUED OPERATION

Description

On 16 June 2020, the Group signed a term sheet with Access Bank (Zambia) Ltd, a subsidiary of Access Bank Plc, to sell its banking subsidiary in Zambia, Cavmont Capital Holdings Zambia Plc (CCHZ). The associated assets and liabilities were consequently presented as held for sale as at 30 June 2020.

On 31 July 2020 the Group signed a Share Purchase Agreement with Access Bank (Zambia) Ltd. The transaction is expected to be completed during the fourth quarter of 2020 and is subject to shareholder and regulatory approvals from the Bank of Zambia and local and regional competition authorities.

	2020 N$'000	2019 N$'000
Net interest income	76,754	99,127
Credit impairment losses	(20,563)	9,151
Non-interest income	54,558	86,121
Operating income	110,749	194,399
Operating expenses	(215,621)	(213,306)
Loss before income tax	(104,872)	(18,907)
Income tax expense	(50,811)	(945)
Loss after tax of discontinued operation	(155,683)	(19,852)
Loss on fair value remeasurement of assets and liabilities held for sale	–	–
Loss from discontinued operation	(155,683)	(19,852)
Exchange differences on translation of discontinued operations	9,719	(4,017)
Other comprehensive income from discontinued operations	(145,964)	(23,869)
Net cash outflow from operating activities	(60,722)	(66,416)
Net cash outflow from investing activities	(9,666)	(75)
Net decrease in cash generated by the subsidiary	(70,388)	(66,491)

NOTES TO THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS (continued)

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44. DISCONTINUED OPERATION (continued)

Assets and liabilities of disposal group classified as held for sale

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 30 June 2020 and 30 June 2019:

	2020 N$'000
Assets classified as held for sale	
Cash and balances with the central bank	157,401
Financial assets at fair value through amortised cost	311,006
Due from other banks	133,825
Loans and advances to customers	769,479
Other assets	48,604
Current tax asset	27,014
Intangible assets	11,850
Property and equipment	58,216
Total assets of disposal group held for sale	**1,517,394**
Liabilities classified as held for sale	
Due to other banks	286,142
Deposits	1,146,953
Other liabilities	63,793
Total liabilities of disposal group held for sale	**1,496,888**

The cumulative foreign exchange losses recognised in other comprehensive income in relation to the discontinued operation as at 30 June 2020 were N$19.5m.

GLOSSARY OF TERMS

Basel II
The capital adequacy framework issued by the Bank for International Settlements aimed at aligning banks' capital requirements with relevant risk profile and risk practices.

Capital adequacy requirement ("CAR")
The minimum amount of capital required to be held, as determined by the Bank of Namibia.

Cost to income ratio (%)
Operating expenses, divided by total operating income.

Earnings per share (cents)
The Group profit for the year attributable to the equity holders of the parent entity divided by the weighted average number of ordinary shares in issue during the year.

Fair value
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Headline earnings
Profit for the year attributable to the equity holders of the parent entity from trading operations, excluding goodwill gain or losses, capital profits and losses and recycled profits or losses on available-for-sale financial instruments. Headline earnings do not measure sustainable earnings.

Headline earnings per share (cents)
Headline earnings divided by the weighted average number of ordinary shares in issue during the year.

Net asset value per share (cents)
Net assets excluding non-controlling interest ("NCI") divided by the weighted average number of ordinary shares in issue during the year.

Price earnings ratio
Closing share price (cents) divided by earnings per share (cents).

Price to book ratio
Closing share price (cents) divided by net asset value per share (cents).

Return on average assets ("ROA") (%)
Group profit for the year attributable to the equity holders of the parent entity divided by average total assets.

Return on average shareholders' equity ("ROE") (%)
Group profit for the year divided by average total shareholders' equity.

Tier I capital ratio
Net total Tier I capital (after deduction of goodwill and 50% of cost of investments in affiliates) divided by total risk-weighted assets.

Tier II capital ratio
Net total Tier II capital (after deduction of 50% of cost of investments in affiliates) divided by total risk-weighted assets.

Total risk-based capital ratio
Total regulatory capital (Tier I, II and III capital) divided by total risk-weighted assets.

Tier I leverage ratio
Net total Tier I capital (after deduction of goodwill and 50% of cost of investments in affiliates) divided by gross assets (total assets plus specific and general impairment).

The central bank
The Bank of Namibia ("BoN").

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