Capricorn Group

2017 INTEGRATED ANNUAL REPORT

Contents

CONNECTOR OF POSITIVE CHANGE

Our group vision and purpose is to be the most trusted and inspiring connector of positive change, through a highly relevant, convenient and responsive network of people and channels that enables opportunities to be created, financed, transacted and secured wherever we operate.

This report introduces the expanded Capricorn Investment Group (Capricorn Group or the group). Following the rebranding of Bank Windhoek Holdings Ltd in September 2016, to Capricorn Investment Group Ltd, the Capricorn Group continued evolving with the acquisition of a controlling shareholding in Capricorn Investment Holdings (Botswana) Ltd (CIHB) and Cavmont Capital Holdings Zambia PLC (CCHZ), from Capricorn Investment Holdings (CIH). During the period under review, Capricorn Group and Sanlam Namibia successfully concluded a transaction whereby Capricorn Group has sold 100% of its shareholding in Welwitschia Insurance Brokers to Sanlam Namibia Holdings Group Ltd. Capricorn Group is proud of its association with Sanlam Namibia and looks forward to strengthening our bancassurance relationship with this well-diversified financial services group, to the benefit of our mutual clients and stakeholders.

The Okavango river, Botswana

01 INVESTMENT CASE

FINANCIAL

Capricorn Group creates value for stakeholders in the following ways:

- Capricorn Group is a regional financial services group that provides diversified, attractive and sustainable returns for its shareholders.
- The Government Institutions Pension Fund (GIPF), the largest institutional investor in Namibia with a net asset value of approximately N$100 billion, acquired 25% of the group's shares in May 2017. The GIPF, together with CIH, became shareholders of reference for the group.
- The acquisition of controlling interest in CIHB and CCHZ brings a regionally diversified revenue stream, which reduces economic risk and provides opportunities for growth in new geographic areas.
- Through its listing on the Namibia Stock Exchange (NSX) in 2013, Capricorn Group provided an investment opportunity to the Namibian public in the national pursuit of financial inclusion and localisation of ownership of financial institutions. The Capricorn Group share price has increased from its public offer price of N$8.75 at listing in June 2013, to N$18.09 on 30 June 2017, thereby achieving a compound annual growth rate of 22.3%.
- Capricorn Group has grown its assets to the value of N$42.9 billion.
- Bank Windhoek, the group's flagship brand, is the largest locally owned bank and the second largest commercial bank in Namibia. Bank Windhoek's scale is evident from its network of 55 branches and agencies, 112 automated teller machines (ATMs) and 214 Cash Express ATMs in Namibia.
- Capricorn Group retained its credit rating of AA(NA) and A1+(NA) for the long term and short term respectively with a stable outlook.
- A dividend of 68 cents per share (2016: 66 cents per share) was declared for the year ended 30 June 2017.
- The group remains well capitalised with a significant buffer above the minimum capital requirements.
- Capricorn Group is diversified with interests in asset management and insurance through Capricorn Asset Management Ltd, Sanlam Namibia Holdings (Pty) Ltd (Sanlam Namibia) and Santam Namibia Ltd (Santam Namibia).
- Capricorn Group has a strong governance culture, entrepreneurial spirit and commitment to transparency.

2017 SALIENT FEATURES

2.0% ↑
N$1,195m
Operating profit
(2016: N$1,171m)

18.3% ↑
N$5.1bn
Net asset value
(2016: N$4.3bn)

1.4% ↑
N$918m
Profit after tax
(2016: N$905m)

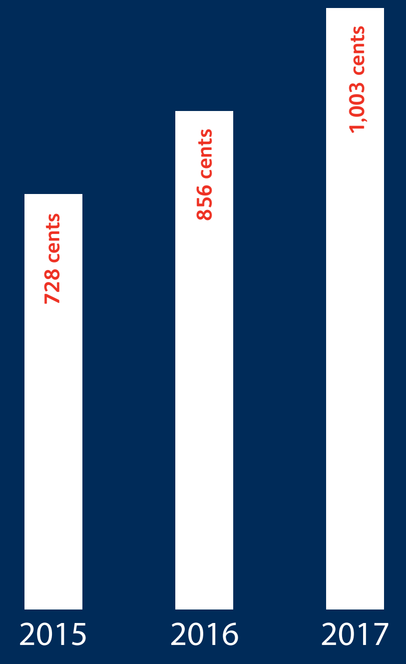
16.8%
Capital adequacy
(2016: 15.8%)

19.5%
Return on average equity
(2016: 22.9%)

3% ↑
68 cents dividend per share (2016: 66 cents per share)

NON-FINANCIAL

- Capricorn Group successfully launched The Capricorn Way, which will shape a new culture for our group that encourages exceptional performance. The Capricorn Way outlines the group's values as a unique set of behaviours and beliefs that resonate with all employees, creating connectors of positive change.
- The expansion of Capricorn Group continued with the acquisition of a controlling shareholding in CIHB and CCHZ through which the group expanded to Botswana and Zambia.
- Capricorn Group launched a range of new product and service offerings, such as the Bank Windhoek EasyWallet mobile payment solution, GoPay cardless fuel payments and Capricorn Private Wealth Suite, which included the group's first credit card facility.
- Value of N$13.2 million was created for qualifying employees through shares that vested in September 2016 in the group's share option scheme.



NET ASSET VALUE PER SHARE

Assurance

The consolidated annual financial statements from pages 105 to 228 were audited by PricewaterhouseCoopers. Non-financial information has been assured through an internal process that involves management and board review.

Forward-looking statements

This report contains certain forward-looking statements regarding the results and operations of Capricorn 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.

Navigational icons

The following icons are applied throughout the report to improve usability and show the integration between the relevant elements of the report.

www This icon is used to refer to online information.

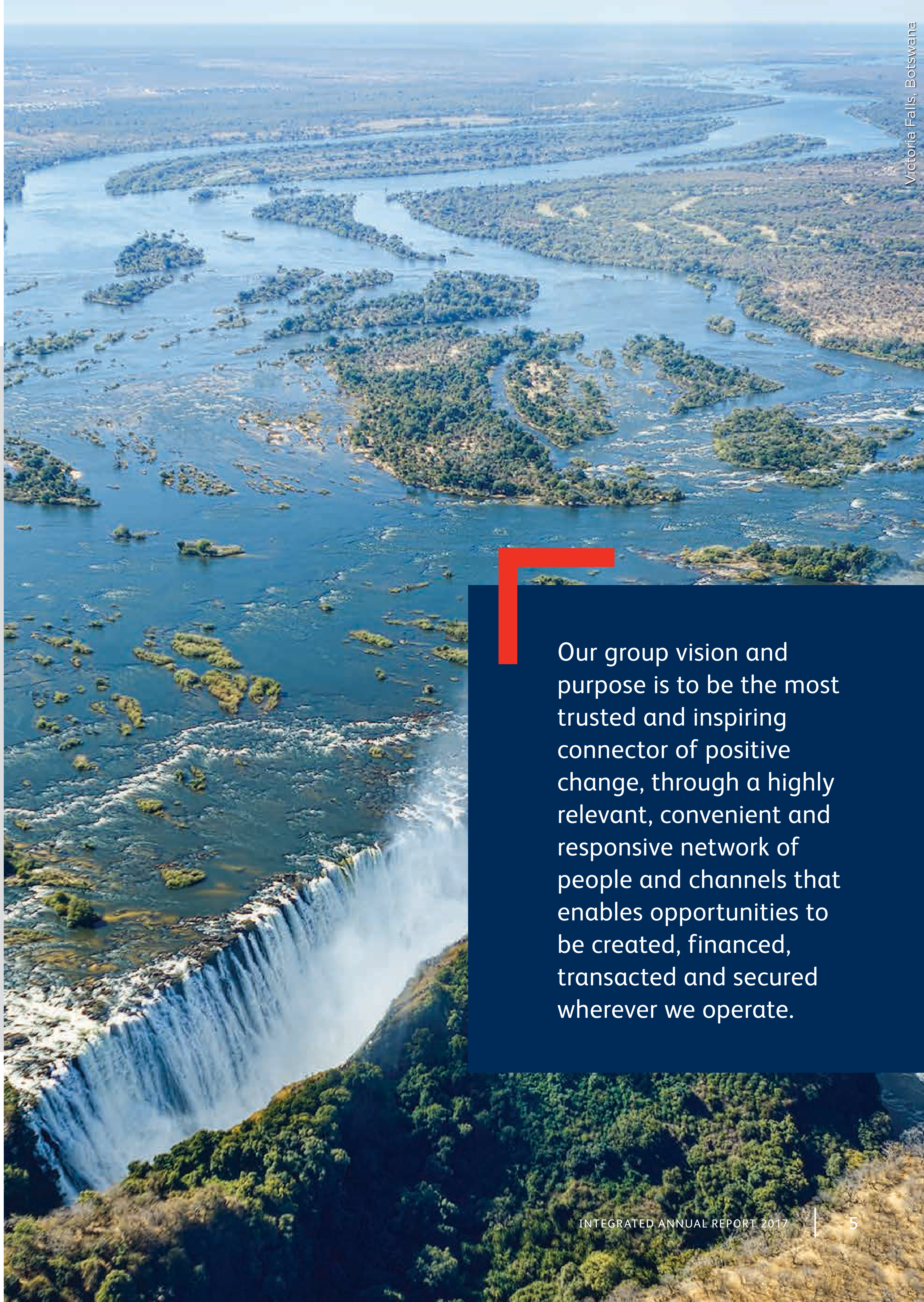
This icon is used for cross-referencing in the report.

Board approval

The board, assisted by the board audit, risk and compliance committee (BARC), is ultimately responsible for the integrity and completeness of this report. The recently established board sustainability and ethics committee was involved in considering the approach and content of the report. The board has applied its collective mind to the preparation and presentation of the report and, accordingly, approved it on 5 September 2017.

Johan Swanepoel
Chairman

Thinus Prinsloo
Managing director



Our group vision and purpose is to be the most trusted and inspiring connector of positive change, through a highly relevant, convenient and responsive network of people and channels that enables opportunities to be created, financed, transacted and secured wherever we operate.

02 LEADERSHIP REPORT

Last year we made a fresh promise to all customers and stakeholders of the group: To be a catalyst of sustainable opportunities. This year, our promise was tested by a tough economic environment, however, we believe that the group has succeeded in creating short- and long-term value from the opportunities that emerged.

Sustainable opportunities created in 2017

Group expansion and diversification

During the year under review the group expanded its footprint beyond Namibia through the acquisition of Capricorn Investment Holdings (Botswana) and Cavmont Capital Holdings Zambia, from CIH. Capricorn Group is now a truly regional financial services group with a diversified footprint that enables us to better mitigate risks and collaborate in executing larger business deals through the pooling of resources such as funding, technology and human capital. It will also promote regional presence and awareness by introducing scale to the Capricorn brand.

During the year, Capricorn Group acquired a 68.7% shareholding in CIHB, which in turn holds 100% of the share capital in Bank Gaborone. Capricorn Group also bought 97.9% of the shares in CCHZ, which owns 100% of the share capital of Cavmont Bank.

Read more about the new group structure on page 22.

As these entities had been part of CIH for several years, the integration into Capricorn Group was seamless and immediate, and took place with no system integration complexities or other associated acquisition costs.

GIPF transaction

A 2017 highlight was the acquisition of a 25% interest in Capricorn Group by the Government Institutions Pension Fund (GIPF), which made the fund our second largest shareholder. The transaction was largely facilitated by CIH, which remains our largest shareholder despite selling a 15.5% shareholding in Capricorn Group to GIPF. GIPF bought a further 9.5% from Namibia Strategic Investments (Pty) Ltd, a consortium of Namibian investors.

Okavango Delta, Botswana

"We want to continue delivering relevant solutions and convenient products with a responsive network of people and channels that enables opportunities to be created." – Thinus Prinsloo at the launch of the Capricorn Group's new name and brand, September 2016

Following the transaction, CIH's shareholding in Capricorn Group decreased from 56.0% to 40.5%, whereas GIPF's shareholding increased to 26%. CIH and GIPF will both fulfil the role of shareholders of reference and, in this role, provide funding support to the group in general and more specifically to its banking operations.

GIPF showed its commitment to fulfilling the role of shareholder of reference by offering immediate long-term senior debt funding of N$1.3 billion to the group. Similarly, CIH also committed to provide 10-year debt funding amounting to N$900 million. This enabled the group to make available committed contingent funding facilities to its three operating banks. This has significantly mitigated the liquidity risk within the group – a material matter that is of major importance for Capricorn Group.

GIPF funded the transaction with the proceeds from the disposal of foreign investments, injecting much needed investment and liquidity into the Namibian economy. The transaction also results in more inclusive ownership of the financial services industry. Capricorn Group has a 100% ownership score according to the Namibian Financial Sector Charter (NFSC) scorecard after the share acquisition by GIPF. Its current Nam-mic relationship is also included in this score.

Welwitschia Insurance Brokers and Sanlam Namibia

On 1 July 2016, the sale of Welwitschia Insurance Brokers (WIB) to Sanlam Namibia was finalised. We believe that WIB's insurance activities are a better future fit with Sanlam Namibia, in which the group holds a 29.5% share. WIB and Sanlam Namibia continue their close working relationship with Bank Windhoek, to the benefit of their mutual clients through the entities' bancassurance model. This has resulted in a combined offering with improved service to clients and more streamlined processes.

Capricorn Private Wealth Suite launched

Bank Windhoek and Capricorn Asset Management launched the pilot phase of the Capricorn Private Wealth Suite in June 2017. It is an exclusive offering delivered by a dedicated team of private bankers, wealth managers and service specialists. This team works together to service customers' needs comprehensively and seamlessly, at the location convenient to the customer. Branded elements that form part of the offering include, among others, a debit and credit card, electronic banking platform, mobile banking application, dedicated service desk and suite access.

The offering focuses on retaining and attracting affluent customers.

The Capricorn Way defined

Following the expansion and the rebranding of the Capricorn Group, there was a need to align the different entities and create a common understanding of what the group stands for. The Capricorn Way was developed as a shared culture and understanding of how we do things. It was written in such a way as to remain relevant as we grow and change as a group and as we move from one leadership generation to the next.

We developed The Capricorn Way to be universal and inclusive so that it is relevant to the different generations and cultures of the countries that we operate in.

We operate in an extremely competitive environment in a number of countries, but there is one distinctive advantage we have, and that is our culture.

We believe that The Capricorn Way will inspire collective thinking and an aligned culture which, together, enables us to make connections and create outcomes that will contribute to the economies of the countries in which we operate.

We also updated the Capricorn Group code of ethics and conduct policy to align with The Capricorn Way. Read more about The Capricorn Way in the sustainability and ethics committee report on page 88.

2017 performance overview

The Namibian economy experienced one of its biggest challenges since Independence with gross domestic product (GDP) declining significantly from a 3.3% growth during the prior financial year of the group, to a contraction of 1.8% during the first three quarters of the group's current financial year, based on the quarterly figures published.

The Namibian banking sector has been significantly impacted by this downturn, which resulted in a sharp reduction in private sector credit extension (PSCE) and severe market liquidity constraints. As a consequence, cost of funding increased substantially as the market competed for limited liquid funds and growth opportunities were stifled by the stagnant economy.

Notwithstanding the challenging operating environment, the group delivered a solid performance with operating profit before tax for the year ended 30 June 2017 increasing by 2.0% compared to the prior year. On a normalised basis, growth in operating profit before tax is 4.0% compared to the year ending 30 June 2016. Any reference to "normalised" means that, for the sake of meaningful comparison, the effect of the following significant once-off transactions and acquisitions have been excluded from actual account balances, to arrive at normalised balances:

- once-off forex trading income on the trading of Angolan kwanza in the prior year
- prior year income, expenditure and profit of Welwitschia Insurance Brokers (WIB), which was sold on 1 July 2016
- income, expenditure and profit of the Botswana and Zambia subsidiaries since acquisition on 1 January 2017
- assets and liabilities of the Botswana and Zambia subsidiaries as at 30 June 2017

The table below sets out the salient features of the group's financial performance over the past five years.

	2013	2014	2015	2016	2017	Five-year CAGR*
Statement of comprehensive income (N$'000)						
Total income	1,437,645	1,736,630	2,079,559	2,411,946	**2,647,682**	16.3 %
Operating profit	648,083	792,874	979,023	1,171,014	**1,194,679**	18.3 %
Profit for the year after tax	493,271	624,915	753,002	905,048	**917,621**	17.9 %
Total comprehensive income for the year	515,630	639,159	781,488	938,513	**931,055**	17.4 %
Earnings per share (cents)	108	125	150	181	**180**	15.2 %
Dividend per share (cents)	33	44	53	66	**68**	22.2 %
Statement of financial position (N$'000)						
Total assets	20,938,608	24,318,268	28,608,842	32,333,653	**42,920,914**	17.8 %
Total loans and advances to customers	17,651,962	20,245,395	23,621,871	26,598,023	**33,433,922**	16.6 %
Total deposits	16,915,652	18,782,411	21,993,998	23,724,128	**31,571,561**	15.0 %
Net asset value per share (cents)	532	617	728	856	**1,003**	19.2 %
Performance indicators (%)						
Return on average equity	21.9	21.9	22.4	22.9	**19.5**	
Return on average assets	2.5	2.8	2.8	3.0	**2.4**	
Impairment charges as a % of average gross loans and advances	0.16	0.15	0.26	0.24	**0.19**	
Non-interest income as % of operating income	37.1	39.8	40.2	40.6	**38.5**	
Cost to income ratio	54.1	53.6	51.6	50.2	**53.9**	
Closing share price (cents) at 30 June	1,015	1,115	1,556	1,724	**1,809**	
Price to book ratio at closing price per share	1.9	1.8	2.1	2.0	**1.8**	
Price to earnings ratio at closing price per share	9.4	8.9	10.3	9.5	**10.0**	
Capital adequacy (%)						
Total risk-based capital ratio	16.6	15.8	15.8	15.8	**16.8**	

* Compound annual growth rate

Net interest income increased by 13.1% to N$1,649.5 million (2016: N$1,458.1 million) largely as a result of the acquisition of CIHB and CCHZ, which contributed 9.8% to the year-on-year growth. The subdued normalised growth in net interest of 3.3% is mainly due to a significant increase in the cost of funding as a result of the liquidity shortage experienced in the Namibian market during the year under review combined with a slowdown in the growth of interest-bearing assets.

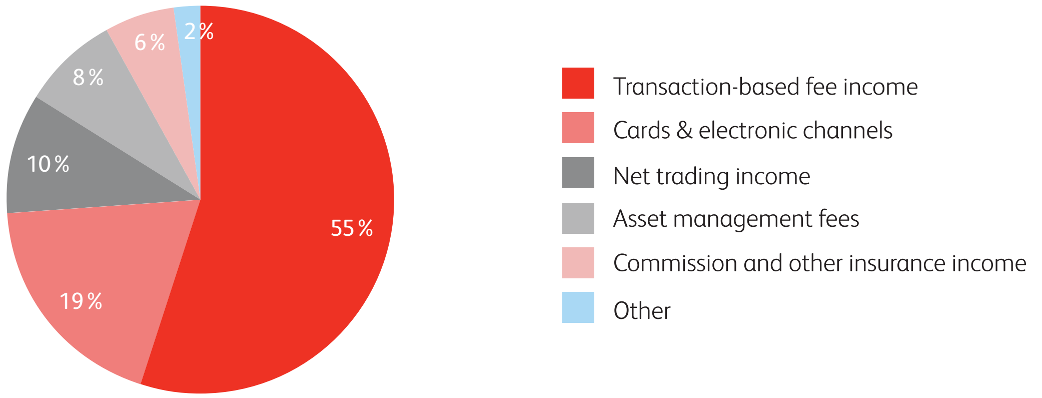
Impairment charges for bad and doubtful debts decreased by 4.6% to N$58.0 million (2016: N$60.8 million). Impairment charges for Bank Windhoek decreased by 23.4% to N$46.6 million (2016: N$60.8 million) and as a percentage of gross advances decreased from 0.24% to 0.17%.

Capricorn Group's loan book remains healthy considering the current economic environment, and is testimony to the group's prudent management and the benefits of a decentralised decision-making model. Both Bank Gaborone and Cavmont Bank's impairment charges are also within accepted norms.

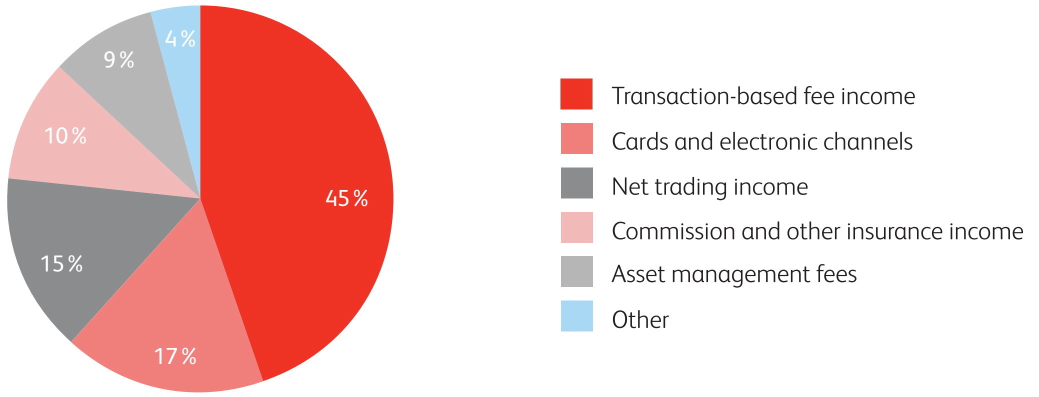
Non-interest income increased by 4.7% to N$998.2 million (2016: N$953.8 million). On a normalised basis, non-interest income increased by 7.4% compared to the prior year. Transaction fee income increased by 24.6% following robust growth from cards and electronic channels. Initiatives such as the launch of the Capricorn Private Wealth Suite are expected to provide further momentum to this income stream. As a direct result of the contraction in the Namibian economy, the good growth in transaction fee income was partially offset by a contraction in trading revenue.

Non-interest income per category

2017

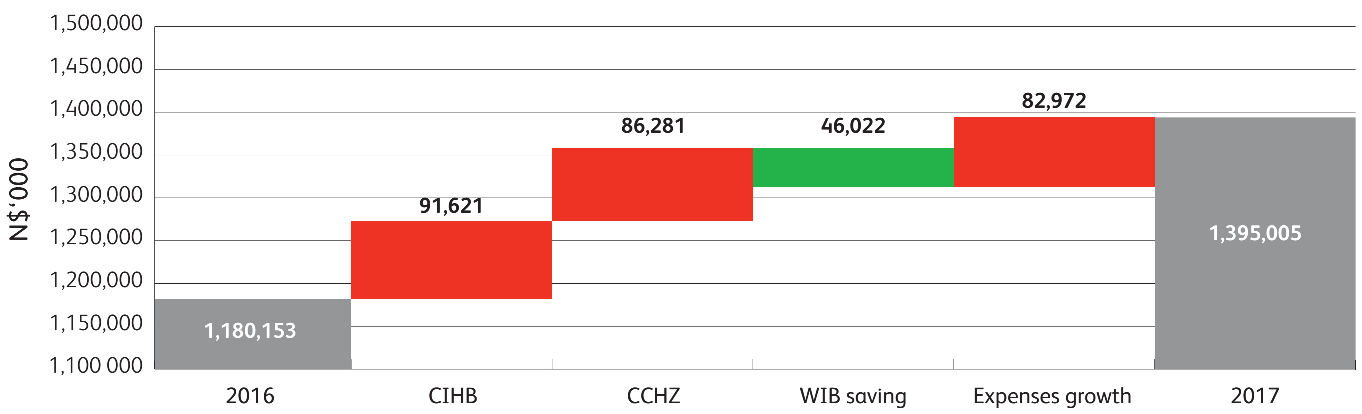


2016



Normalised operating expenses increased by 7.1% to N$1,214.9 million (2016: N$1,134.1 million), evidencing management's focus to control costs. The cost to income ratio increased from 50.2% to 53.9% as a result of the higher cost to income ratios of the subsidiaries in Botswana and Zambia.

Growth in operating expenses



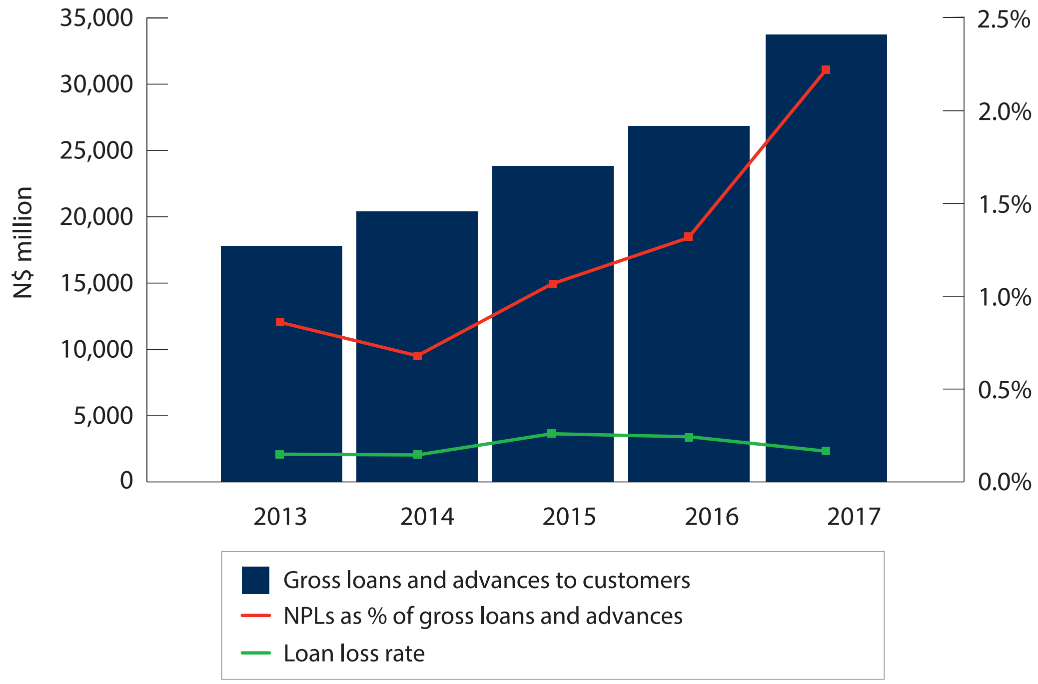
Operating expenses increased by 18.2% to N$1,395.0 million (2016: N$1,180.2 million), which is mainly due to the acquisition of CIHB and CCHZ together with an increase in technology- and transaction-related expenses. The increase in technology-related expenses relates to the continued investment in IT infrastructure and service offerings, resulting in an increase well above inflation. This has been offset by cost savings across the group due to a focus on efficiencies and operational excellence, specifically in the muted normalised growth in staff costs of 4%.

Income from associates decreased by 19.6% to N$78.1 million (2016: N$97.1 million) and contributed 8.5% (2016: 10.7%) to profit after tax. The year-on-year decrease is mainly due to a decrease in current year profit reported by Sanlam Namibia, following a number of large group life claims settled during the year under review.

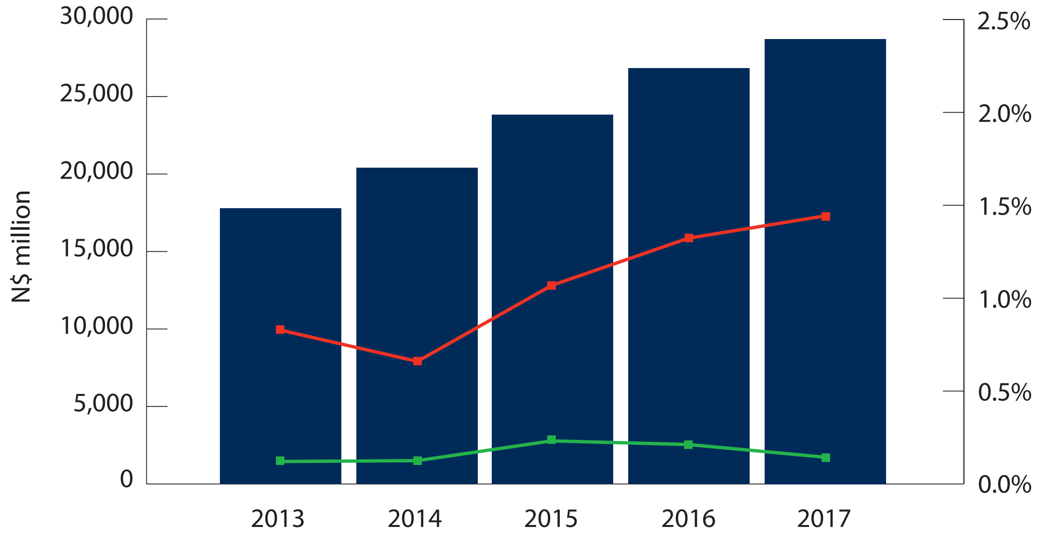
Other comprehensive income is mainly derived from the valuation of foreign-currency-denominated available-for-sale financial assets. The significant reduction in other comprehensive income, compared to the previous year, is due to foreign currency exchange differences arising from the strengthening of the Namibia dollar against the US dollar during the period under review.

Loans and advances grew by 25.7% to N$33.4 billion (2016: N$26.6 billion). The strong growth is mainly due to the acquisition of the two banking entities during the year under review. CIHB and CCHZ contributed N$4.1 billion (12.2%) and N$833.5 million (2.5%) respectively to N$33.4 billion total advances. The acquisitions also resulted in an increase in non-performing loans (NPLs), as illustrated in the graph below, however NPLs within CIHB and CCHZ are within their respective market norms and did not result in a corresponding increase in impairment charges.

Group gross loans and advances vs impairments



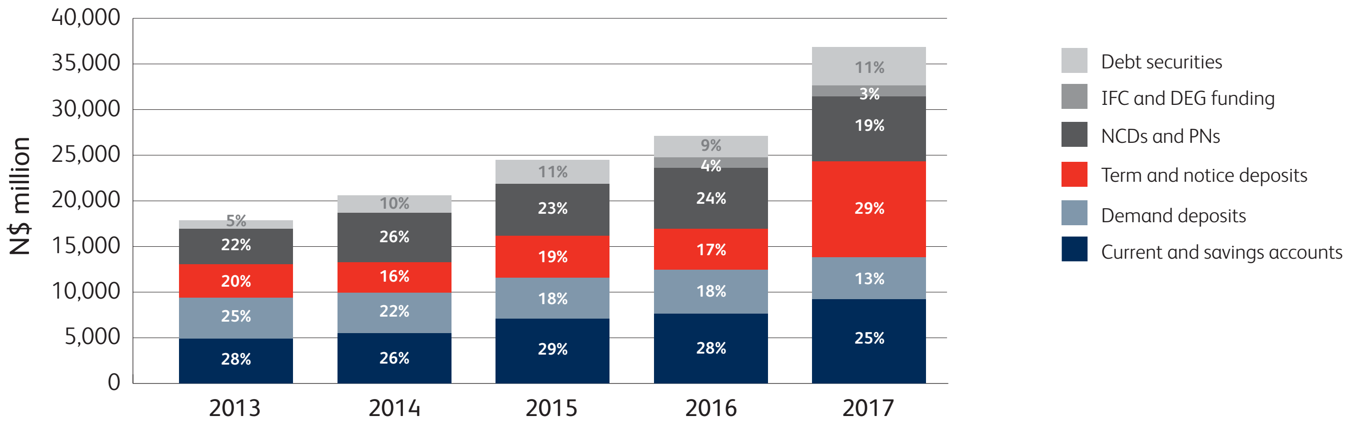
Bank Windhoek gross loans and advances vs impairments



Excluding CIHB and CCHZ, loans and advances grew to N$28.5 billion (2016: N$26.6 billion), mirroring the decline in Namibian credit to the private sector. NPLs as a percentage of gross advances of Bank Windhoek remains stable with a slight increase from 1.32% to 1.44%.

Total funding increased by 34.9% to N$37.2 billion (2016: N$27.6 billion) which is also mainly due to the acquisition of Bank Gaborone and Cavmont Bank. On a normalised basis, Bank Windhoek's funding increased by 7.6% largely due to good growth in term and notice deposits, as well as senior debt. Although funding growth has been challenging in the current economic environment, the group has managed to lengthen its funding maturity profile and decreased its dependency on short-term funding.

Funding contribution



Bank Windhoek

The group's leading operating subsidiary, Bank Windhoek, is the largest locally owned bank and second largest commercial bank in Namibia. The reduction in government spending impacted the entire business community and highlighted the local economy's level of dependency on government's financial health.

Bank Windhoek experienced the impact most acutely in the cost of funding. Our own ability to fund growth was limited due to past focus on assets, triggering the strategic shift towards raising deposits as a key performance metric. This focus, combined with the work done on the customer value proposition and digital focus areas in the past few years, delivered the following:

- The launch of the Capricorn Private Wealth Suite mentioned earlier in the report – the new offering is not expected to yield high volumes of new business, but it will be a strong retention mechanism, and creates a capability that can be rolled out to other market segments and business units.
- The launch of an e-money functionality through the Bank Windhoek EasyWallet – the e-wallet solution enables customers to send money to any MTC number via a mobile phone. Recipients do not need a Bank Windhoek account and can immediately withdraw cash at any Bank Windhoek ATM or access prepaid services and buy airtime or electricity. The points of presence for cashing out EasyWallets increased to almost 400 locations countrywide by the end of the financial year.
- The launch of GoPay, a mobile payment solution for fuel. More than 80 Namibian fuel merchants signed up for the service, which allows Bank Windhoek customers to pay for fuel using their existing cell phone banking platform. The solution is cashless, cardless and can be actioned remotely, thereby reducing costs, such as ATM fees for cash withdrawals, and improving convenience.
- The launch of Solo Bank for children – the Solo Bank is an account that is tailor-made for children of 18 years and younger and has savings and transactional facilities. This account encourages children to start managing their finances from an early age. The focus of the Solo Bank is to teach financial literacy to young Namibians.

Bank Windhoek's net profit after tax amounted to N$775.4 million (2016: N$762.9 million) – an increase of 1.6%. Transactional income showed steady growth and we were able to manage the arrears book well.

Social and political drivers have muted demand, whereas economic factors have put pressure on margins.

Bancassurance is one of the main opportunities for Bank Windhoek going forward and we are ensuring that it is well integrated with our current offerings and customer acquisition strategy. This gives us the opportunity to diversify revenue and increase advisory service income.

Bank Gaborone

Bank Gaborone celebrated its 10th anniversary in 2016 and was the strongest performer in the group for the 2017 financial year. It showed 28.4% growth in revenue and 83.2% improvement in operating profit.

Bank Gaborone's focus remains on building and nurturing relationships. Evidence of our success was apparent when Bank Gaborone was rated the best bank for customer care in Botswana by KPMG in the banking industry customer satisfaction survey.

During the year the bank opened two branches, one in Palapye and the other in Maun, bringing the total number of branches to nine and thereby extending its network of relationships. The bank also improved customer experience by introducing a new Internet banking system that is user friendly with enhanced security features.

The market environment in Botswana remains challenging, with the closure of the parastatal mining operation, Bamagwato Concessions Ltd, as a significant lowlight. The bank was affected by resulting job losses.

Since the market is more concentrated from a population perspective than in Namibia, costs can be managed more efficiently. Bank Gaborone, with a 6% market share, provides ample opportunity for growth, especially when considering that the bank is well positioned from a service and reputation perspective.

Cavmont Bank

Cavmont Bank celebrated 25 years of banking in 2016 and won 13 local and international awards and accolades for excellence in retail banking. The bank also received an unsolicited investment-grade credit rating from the Credit Rating Agency Zambia in 2016. This rating, coupled with improved profitability, enables us to pursue capital markets activities, and to consider long-term development finance institution (DFI) funding and third-party credit line opportunities that are all aimed at expansion and growth.

The bank's portfolio quality has remained consistent, funding costs have been well below market average and operating expenses have been tightly managed, despite market challenges and constraints, to position the bank for growth.

The bank's active customer base doubled to 62,000 since 2014 due to its strong track record in providing award-winning solutions and service. This included the Imiti Ikula Children's account and the Imbasela account, which is targeted at marketeers, small business owners and savings groups.

Cavmont Bank is also one of the first financial institutions in Zambia to successfully offer the e-Tax platform, which allows existing or walk-in customers to remit taxes electronically to the regulator.

We have qualified SME managers in our Cavmont Bank branches who can support small businesses in making their contribution to national economic growth through insights-driven advice and solutions.

In the past two years, Cavmont Bank has made significant progress towards improving access to financial services, and continues to find ways to penetrate the unbanked market – a market that holds a significant opportunity for the bank. Further investment in mobile banking services will be a key element of this drive, supported by a strong social media presence.

Capricorn Asset Management (CAM) and Capricorn Unit Trust Management (CUTM)

Assets under management increased by 13.2% (2016: 0.14%) during the year under review, primarily with investments in the low-risk asset classes. Revenue increased by 2.5% (2016: 17.3%) and operating profit decreased by 2.0% (2016: 18.1% increase). Customer retention was high, but there was a significant shift from investment in actively managed funds to money market funds due to perceived market risk.

The refreshment of Capricorn Asset Management's brand was done early in 2017. This included the renaming of the Bank Windhoek Unit Trusts to the Capricorn Unit Trusts, thereby aligning the asset management and unit trust businesses with the overall group identity.

A further highlight was the Caliber Capital unlisted investment solution, which became the largest, non-listed, debt capital fund in Namibia with 42 pension fund investors and total committed capital of N$400 million.

The integrated Capricorn Private Wealth Suite offering, which is developing a strong sales focus with the emphasis on digital channels, is expected to generate additional income for CAM.

Namib Bou

Phase two of the affordable housing development at Ondangwa delivered 146 houses. During the year, a feasibility study for the phase three houses, board approval of the development and the completion of the servicing of 274 phase three erven were completed. We aim to have a maximum of 35 houses under construction at any time. The first 35 houses were sold within two weeks of going to market.

Strategy progress and performance

Reflecting on the strategic focus areas up to the end of this financial year, we have gained deeper and more strategic – rather than tactical – insights to guide our future conversations. We have achieved the following in the process of embedding our initiatives:

Customer value proposition (CVP)

The most significant outcome from this initiative – to create a compelling customer value proposition in all aspects of the business – was the launch of the Capricorn Private Wealth Suite. This offering aims to serve the affluent customers of the group, mainly through Bank Windhoek and Capricorn Asset Management.

The offering was developed following the use of a customer journey mapping tool to design customer experiences and to ensure that services, processes and procedures meet a desired customer outcome. Further CVP outcomes include a data-driven pipeline for new offerings, based on the appropriate success metrics for customer centricity.

From Employee value proposition (EVP) to Citizenship

Our success in delivering on Capricorn Group's brand promise and strategy relies on the skills and engagement of our employees. Therefore, Capricorn Group's internal focus over the past two years was on building an EVP that differentiates us from the market by bringing together the expectations and responsibilities of both employee and employer.

Citizenship is our way of honouring the employment promise and captures the shared dedication required by employee and employer in creating an enriched workplace. In March 2017, we introduced The Capricorn Way to the organisation, which shapes a new shared culture that encourages exceptional performance and living positive change through specific behaviours. A further Citizenship focus was on enhancing the coaching skills of line management in Namibia and Botswana and the development of a coaching framework. The group's current leadership framework has also been reviewed to align with the group's strategy and The Capricorn Way. In February 2017, 29 new leadership delegates joined a leadership development programme at the Capricorn Talent Academy, with The Capricorn Way incorporated into the curriculum.

A future step to embed The Capricorn Way is the development of a survey as an employee engagement tool and a way to measure the climate and culture within the group. The behaviour elements of The Capricorn Way have also been incorporated into the performance management system.

The group's Citizenship strategy for 2017 to 2019 was finalised in June 2017 with citizenship engagement, operational excellence and climate/health as the three main principles guiding the strategy.

These three aspects will guide our focus on improving and strengthening the "employment handshake" and contribute to the sustainable competitiveness of the group.

Sustainability and stakeholders

Capricorn Group's commitment to sustainability means taking a long-term, holistic view that considers the perspectives of all stakeholders. Our sustainability framework, which provides the structure and processes through which we are able to create enterprise-wide awareness and ensure aligned thinking and practices, has been rolled out to Bank Gaborone and is in the process of being adopted by Cavmont Bank. Key non-financial indicators were established and management has started tracking key indicators.

A stakeholder relationship management policy was approved by the board and a dedicated resource was appointed to monitor and guide group-wide efforts.

Read more about our sustainability and stakeholder process in the sustainability and ethics committee report on page 88.

Capricorn Group became a signatory to the United Nations Global Compact in November 2016 and made a commitment to implement the ten principles. In our next report, we will include practical examples of the ways in which we have contributed to sustainable development, especially in terms of human rights, labour, environment and anti-corruption.

Digital channels

A group-wide digital strategy has been developed to structure and create the appropriate capacity to build a pipeline of continuous and innovative solutions. Outcomes of this initiative include the launch of a Bank Windhoek mobile app, and the GoPay and EasyWallet offerings.

Benefits realisation management

The primary goal of this initiative was to ensure that management clearly defines the purpose and business case for a change initiative and that the stated benefits are well constructed. Our recent investment focus was on creating information technology infrastructure, capabilities and platforms with significant future leverage. These are now all evaluated and managed according to a set methodology with defined qualitative and quantitative metrics. The necessary internal project management skills are being developed to ensure consistent implementation.

Brand architecture

The launch of the Capricorn Group's new brand identity took place in September 2016. The external launch was preceded by the internal introduction of the group's new brand vision, proposition, values and purpose – to be a connector of positive change – in Namibia, Botswana and Zambia.

In October 2016, the group's brand and citizenship function was created with a specific focus on creating awareness of the group's brand and proposition in the markets in which it operates, as well as facilitating the embedding of the brand's values through the launch of The Capricorn Way into all group entities. Additionally, the department is responsible for the co-ordination of the roll-out of the group's monolithic brand architecture to all brand entities in Namibia, Botswana and Zambia. This includes the finalisation, socialisation and training of and on all relevant corporate identity manuals, signage guides and messaging frameworks among others.

As part of the process of implementing entity-specific elements of the brand architecture, a number of interventions were undertaken. The interventions aim to ensure the smooth transition by entities from their current visual languages to the new group entity visual languages as defined in the relevant new corporate identity manuals. Touchpoints include all entity websites, advertising, stationery and promotional items.

All brand and citizenship initiatives aim to ensure the delivery of a strong, differentiated and reputable brand experience for employees and stakeholders.

Our regulatory landscape

As described in the material matters section on page 42, regulatory change is impacting all areas and units in the group. Capricorn Group continues to prepare for the capital liquidity requirements of Basel III. Our total risk-based capital ratio of 16.8% compares well with the Bank of Namibia's 10% requirement. The same applies for the Tier I risk-based capital ratio requirement of 7%. Capricorn Group's ratio for 2017 stands at 15.4%, which is well beyond the legislative requirements. This provides a sufficient buffer to absorb credit losses.

Read more about compliance in the governance report on page 58.

Risk management

With the 2017 strategy review and the integration between risk management, stakeholder engagement and material matters for value creation, the group has taken a more strategic approach to risk. This approach follows the recognition that the group has to be resilient and flexible in a complex and dynamic operating environment.

Read more about the management and mitigation of risks in the report on page 76.

The group's most significant compliance risks relate to the NSX Listing Requirements, the Banking Institutions Act, anti-money laundering and labour legislation, tax, payment systems legislation and industry standards.

Capricorn Group continues to monitor changing regulations, while contributing directly and indirectly towards addressing the related risks to business and society.

Governance and leadership

The succession plan for the role of chairman of our board has been in place for some time – to ensure a responsible and smooth transition. Accordingly, Johan Swanepoel, who was the vice-chairman of Capricorn Group for the past 10 years, was appointed as successor effective 1 July 2017.

Johan joined the group as managing director of Bank Windhoek in July 1999. We are confident that the group will continue to prosper under his very capable leadership. We also welcomed Dirk Reyneke as a new non-executive director on 19 May 2017 and look forward to his contribution.

The boards of CIHB and CCHZ continue to operate according to the existing governance structures, with synergies and skills transfer applied where relevant.

We continue to rely on the deep knowledge and experience of our board members across a variety of sectors. Their insights into local and regional dynamics provide a competitive advantage, which is enhanced by the track record of our leadership team.

As part of the restructuring of the group entities, which resulted in the acquisition of CIHB and CCHZ, we reviewed the overall organisational design, primarily to ensure that leadership structures are best suited to serve the strategic intent of the group.

At the start of the financial year, Baronice Hans formally took over the position of managing director: Bank Windhoek from Christo de Vries, having acted as managing director: designate from February last year. This ensured a well-managed and smooth transition.

We have also made a few further key appointments at Bank Windhoek, including the executive officer: human resources, who will be executing our employee value proposition, a new executive for marketing and corporate communication services, a new chief financial officer as well as a new chief operating officer. It has always been a social commitment for the group to ensure value creation for employees beyond short-term remuneration. This remains a key enabler to attract and retain critical skills for the group.

Refer to page 74 of the Remuneration Report for share appreciation rights and conditional shares awarded to qualifying employees.

Dividends

A final dividend of 38 cents per ordinary share was declared on 15 August 2017 for the year ended 30 June 2017 (2016: 36 cents). Considering the interim dividend of 30 cents per share, this represents a total dividend of 68 cents per ordinary share for the year (2016: 66 cents per share). The group's dividend policy remains unchanged.

Outlook

To remain a catalyst for sustainable opportunities, we will use our expanded regional base to enhance performance and customer experiences substantially through leveraging and sharing our strengths. We have a strong capital foundation with a solid buffer against any liquidity challenges, combined with visible and engaged leadership to drive growth.

We believe that a sustainable future for the group will rely on strategic partnerships and operational excellence informed by our four strategic choices.

Future growth will be driven mainly by market share opportunities in Zambia and Botswana. In Namibia, the focus will be more on client loyalty and retention through innovative offerings and digital enablers. Expanding our commercial offering is an area of potential growth in all jurisdictions.

Our challenges in the short to medium term are predominantly linked to the economic health of the region, the cost of funding, project cost and delivery. The GIPF transaction will make a significant difference to our long-term stability, although credit risk will remain. We are also encouraged by the steps the Namibian government is taking to improve economic viability and create more certainty against a backdrop of positive GDP growth in the region.

In all our business units we are re-engineering channels, coverage and service models by applying customer-centric principles. We are simplifying product offerings to gain market share and scale.

Appreciation

We would like to thank the board members of all our subsidiaries, and the Capricorn Group board, in particular, for their undivided commitment to the cause of our group and the direction and guidance they have provided. We have been through a period of significant change, and relied on their ethical and strategic leadership to create a sustainable future for the group.

We also thank our regional governments and societies for providing a receptive environment in which we, as a group, can continue to create value for our stakeholders. The consistent growth and positive performance of the group can also be attributed to our loyal and expanding customer base, and the continued commitment of our leadership and employees. We have the scale, capacity, capability and infrastructure to create further growth, connections and opportunities.

Thinus Prinsloo
Managing director

Johan Swanepoel
Chairman

KOOS BRANDT'S MESSAGE OF FAREWELL

"It is my wish that all stakeholders come together to work collectively on solutions to secure a better future for the current and next generations. It is our responsibility to keep each other accountable and to work in the best interest of our country and its people."

– Koos Brandt, outgoing non-executive chairman

I am deeply honoured and privileged to have led the Bank Windhoek and Capricorn Group boards since 1990 and 1996 respectively. Over the years there were many highlights to report on in my chairman's report for which I am very grateful. Our journey, which started in 1982 was, however, not always easy and predictable – with many challenges to overcome. Through perseverance, hard work and commitment of the board of directors, management and staff, we have always managed to weather the storms.

I truly believe that the Bank Windhoek and Capricorn Group of today is a Namibian success story built on a strong foundation of integrity, ethics and accountability. Our group has a proven track record for delivering sustainable, long-term value to its stakeholders by growing in a responsible manner and in the process making a meaningful contribution to the growth and economic development of Namibia.

In stepping down as chairman, I am honoured to hand over the reins to Johan Swanepoel, with whom I've been fortunate to work very closely since 1996, the last ten years as my vice-chairman. I am confident that under the chairmanship of Johan, Capricorn Group and all of its subsidiaries will continue to build on the legacy of the past 35 years. He is an extremely capable and well-equipped leader, who has what it takes to take this group to the next level of greatness.

The concluding of the transaction with the GIPF in May 2017 signalled a new era for the group as GIPF became the second largest shareholder in Capricorn Group. The direct and indirect benefits of having GIPF as a substantial shareholder for the Capricorn Group are immeasurable. As the largest institutional investor in Namibia – with a very strong balance sheet – GIPF will play a joint role as shareholder of reference for Capricorn Group. I am proud that the GIPF board recognised Capricorn Group as a solid investment, as I believe that we subscribe to the same set of values. This transaction will enable the group to increase its competitiveness and also creates a platform for the group to pursue new opportunities for diversification. It also enables the group to continue to serve the interests of our country and its people.

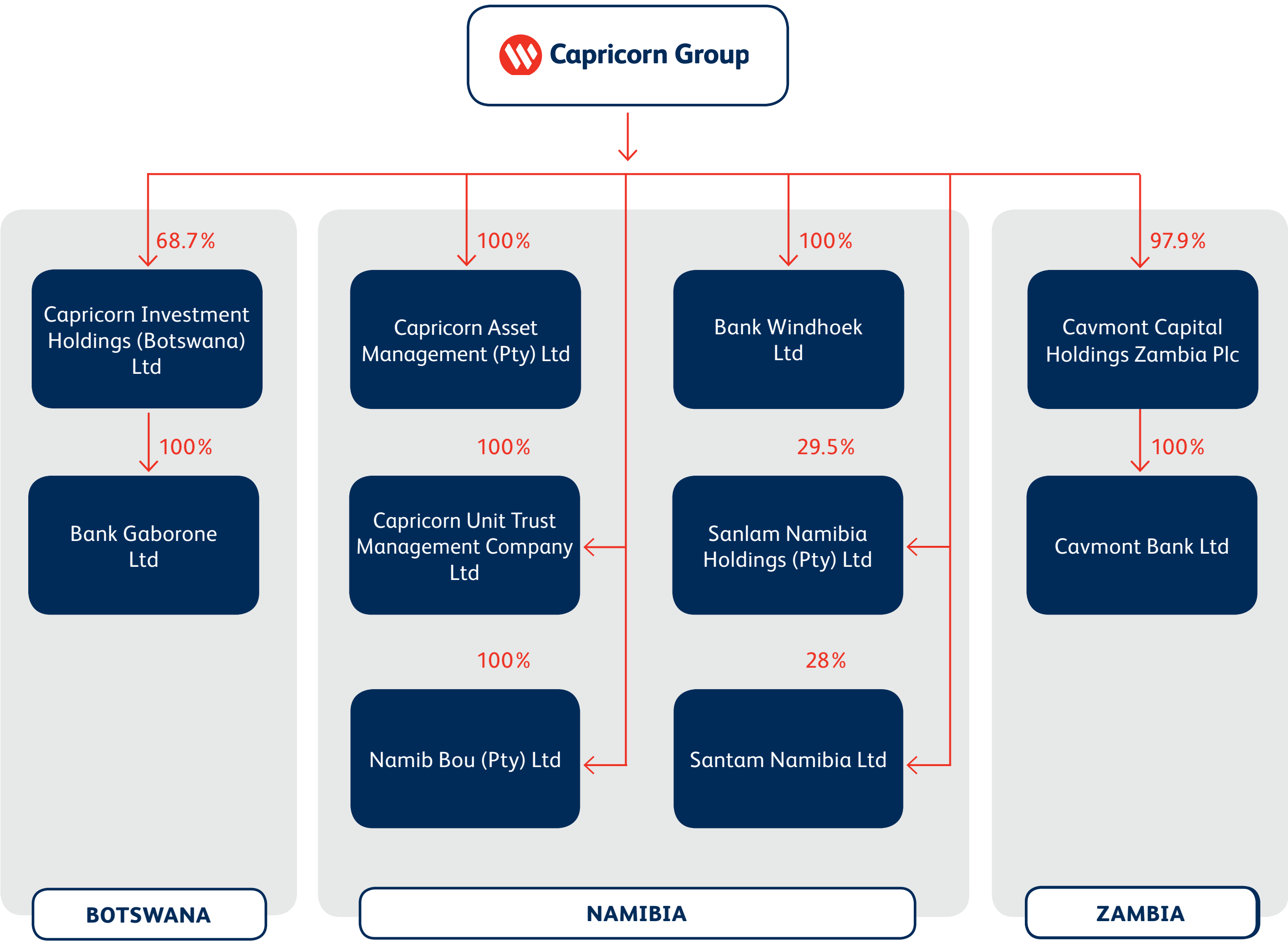
Bank Windhoek has been the flagship brand of our group, lying close to my heart. Bank Windhoek has established itself as a proudly Namibian bank, making a significant positive contribution to the Namibian economy in a number of ways. I am confident that management will continue to embrace this uniqueness and boldly be connectors of positive change in Namibia. Unfortunately, the importance of a strong and stable banking sector continues to be underestimated. One of the five pillars of banking sector stability is quality of earnings. Banks have to be profitable to remain financially strong and stable. Yet profits of banks are constantly scrutinised and criticised without taking cognisance of the value that banks add to the economy through employment and the advancement of loans. This stimulates the economy through direct and indirect taxes paid to government, social investment into communities and being a trusted deposit taking institution. Another constraint that banks continue to face is the shortage of skills in specific areas such as technology, risk and compliance. The expertise required to successfully operate a bank and to comply with all the regulations, are often underestimated.

I remain concerned about a number of social issues facing Namibia. It is my wish that all stakeholders come together to work collectively on solutions to secure a better future for the current and next generations. It is our responsibility to keep each other accountable and to work in the best interest of our country and its people. We should be mindful of the lessons of the past, while creating a brighter future and build on what makes our country so great – our strong sense of independence and patriotism, our ability to adapt and persevere, and to embrace diversity.

In conclusion, I would like to give a heart-felt thanks to the present and past boards of directors and managing directors with whom I had the privilege to work over the past 35 years. Thank you for your invaluable support and guidance as well as contribution to the success of our group. I would also like to thank the entire leadership and staff of the group, many of whom I have worked with very closely over the years. I look forward to remain part of Bank Windhoek and Capricorn Group by serving as a non-executive director in the interests of our stakeholders.

03 CAPRICORN GROUP PROFILE AND STRUCTURE

Capricorn Group is a diversified financial services group based in Windhoek, Namibia, with subsidiaries in Botswana and Zambia. The group's operations are primarily focused on banking, insurance, wealth and asset management, and microfinance. It was incorporated on 5 September 1996 and listed on the NSX in June 2013. Capricorn Group provides strategic guidance, oversight and support to its subsidiaries.



Bank Windhoek

Bank Windhoek Ltd

Bank Windhoek is the flagship brand of Capricorn Group. It is a full scope commercial bank offering a wide range of banking products and services.

Bank Windhoek offers foreign exchange services at all its branches and through a joint venture with American Express, which has various outlets in Namibia.

Bank Windhoek's wholly owned subsidiary, BW Finance, is the entity through which Capricorn Group operates its micro lending business, in partnership with Nam-mic Financial Services Holdings, the group's strategic broad-based black economic empowerment (BBBEE) partner.

Products and services

Bank Windhoek offers personal, corporate, electronic and international banking products and services. These include personal savings for different customer segments and needs. Bank Windhoek also offers competitive interest rates on its Call Deposit, Notice Deposit, Fixed Deposit and prime-linked Fixed Deposit products. It has a wide range of secured as well as unsecured loan products to cater for the needs of individual customers, small and medium-sized enterprises (SMEs) and corporates, which includes home and building loans, vehicle and asset finance and micro-loans through BW Finance. In its quest to offer effortless banking services, the bank recently introduced digital payment solutions through its EasyWallet offering, which enables clients to send money to beneficiaries. Similarly, GoPay enables clients to pay for fuel at participating merchants using cell phone banking.

Bank Windhoek offers a wide range of treasury services which include money market and foreign exchange.

International banking services comprises payment products, trade services, trade risk and foreign currency accounts. A wide spectrum of financial solutions for business clients includes overdraft, business financing and start-up alternatives.

Bancassurance includes short-term, long-term and travel insurance, and guarantees.

Investment options for unit trusts and funds are available through Capricorn Asset Management.

Key facts

83%
Contribution to group profit after tax

Windhoek, Namibia
Head office

1982
Date of establishment

Baronice Hans
Managing director

1,496
Permanent employees

326
Bank Windhoek ATMs and Cash Express ATMs across Namibia

Credit rating
AA(NA) and A1+(NA)

55
branches and agencies and four specialist finance branches in Namibia

Bank Gaborone

Bank Gaborone Ltd (Botswana)

Bank Gaborone is wholly owned by CIHB, a 68.7% subsidiary of Capricorn Group. Since it commenced commercial operations in 2006, the bank has expanded its network and offers an increasingly broader range of products and services in response to market needs.

Products and services

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

- deposit accounts, which include current, savings, investment and call accounts, foreign exchange products and services
- loan accounts, which include vehicle and asset finance, home and building loans, unsecured loans through BG Finance, commercial loans and overdraft facilities
- bancassurance, which includes short-term, long-term and travel insurance

The bank offers electronic channels which include E-pula Internet Banking, Tobetsa Mobile Banking and an SMS Alertz service. Through these channels customers can, at their convenience, enjoy hassle-free banking at their offices and homes.

Key facts

4%
Contribution to group profit after tax

Gaborone, Botswana
Head office

2006
Date of establishment

252
Permanent employees

Sybrand Coetzee
Managing director

17
ATMs in Botswana

9
Branches in Botswana

Cavmont Bank Ltd (Zambia)

Cavmont Bank is a 100% subsidiary of CCHZ and was established following a 2004 merger between Cavmont Merchant Bank Ltd (incorporated in October 1992) and New Capital Bank Plc (incorporated in June 1992). CCHZ listed on the LuSE in September 2006.

Products and services

Cavmont Bank provides corporate, investment, retail and community banking services. Its personal, business and treasury banking products include:

- personal current, extra capital, savers bonus and saving accounts
- business current, extra capital, savings and church accounts

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 offers e-Cavmont electronic banking.

Key facts

0.3%	Contribution to group profit after tax
Lusaka, Zambia	Head office
2004	Date of establishment
Charles Carey	Managing director
258	Permanent employees
46	ATMs in Zambia
Global credit rating Zambia: S&P B/B	with stable outlook
20	Branches in Zambia

Capricorn Asset Management (Pty) Ltd (CAM) and Capricorn Unit Trust Management Company (CUTM)

The group's asset management activities are conducted under two separate legal entities: Capricorn Asset Management (CAM) and Capricorn Unit Trust Management Company (CUTM). All administration and asset management activities of the Capricorn Unit Trust funds are performed by CAM.

CAM is a leading Namibian asset management firm established in 2006, meeting the investment needs of individual investors, financial advisors, businesses, pension funds and institutional investors. The division manages investments covering all major asset classes in markets around the world. CAM's wealth management services include investment advisory and portfolio management services. Through the Caliber Capital Trust, an approved unlisted special purpose vehicle in terms of regulation 29 of the Pension Funds Act, CAM offers investment opportunities in unlisted businesses. This fund supports the Harambee Prosperity Plan and Vision 2030 by focusing on job creation, import replacement and industry development in Namibia.

The Capricorn Unit Trust Fund range, formerly known as the Bank Windhoek Unit Trusts, was established in 2000 with the launch of the Capricorn Selekt Fund. As the market leader since 2004 in terms of assets under management within the unit trust sphere, CUTM has a market share of 29.3%. It has 15 unit trusts covering all major asset classes including cash, bonds, property, equity and international equities.

The Capricorn Investment Fund and Capricorn Corporate Fund have dominant positions in the money market asset class.

Key facts

4%	Contribution to group profit after tax
Windhoek, Namibia	Head office
2006	Date of establishment
Tertius Liebenberg	Managing director
41	Permanent employees
N$18.7bn	Assets under management
1	Office in Namibia

Sanlam Namibia Holdings (Pty) Ltd

Sanlam Namibia is a well-diversified financial services group with key operations in life assurance in both the affluent and entry-level markets, as well as in group life assurance, credit life assurance, unit trust management and unit-linked platform business.

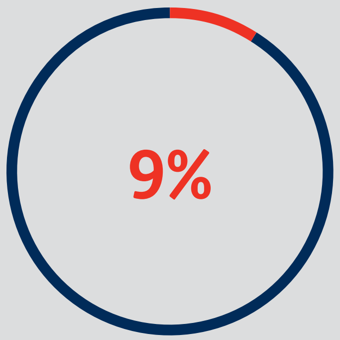
Sanlam Namibia's key strategic shareholders are Sanlam Ltd (54.1%), a South African financial services group as technical partner, Capricorn Group (29.5%) as banking partner and Nam-mic (16.4%) as empowerment partner.

Santam Namibia Ltd

Santam Namibia is the largest short-term insurer in Namibia with countrywide branches and centres, a strong intermediary network and a market share which exceeds 30%. Santam Namibia focuses on corporate, commercial and personal markets in its underwriting of a wide range of insurance classes.

Santam Namibia was established in Windhoek in 1956, and is a 60% owned subsidiary of Santam Ltd – the leading general insurer in South Africa. The remaining shares are held by Capricorn Group (28.0%) and Nam-mic (12.0%).

Key facts



Contribution to group profit after tax

Windhoek, Namibia
Head office

Tertius Stears
Managing director: Sanlam Namibia

Franco Feris
Managing director: Santam Namibia

Namib Bou

Namib Bou is a property development company, focusing on affordable housing development and property valuation services. Namib Bou is an important element of the social responsibility initiatives of Capricorn Group and is the facilitator between local authorities and financial institutions (banks) to support the creation of housing stock over the long term.

Products and services

Namib Bou offers property development services that range from planning and design to property evaluation, feasibility studies and construction management.

Partnerships

Nam-mic Financial Services Holdings Group (Pty) Ltd (NFSH)

NFSH is the largest single BEE investment house owned by Namibian trade unions. Its ultimate beneficiaries are the union members and their dependants. NFSH is the Capricorn Group's BBBEE partner with a 9.9% shareholding in the group.

Wholly owned subsidiaries, Nam-mic Financial Solutions and Nam-mic Payment Solutions provide microfinance and insurance products as well as affordable payment solutions to union members.

Clearing houses

Capricorn Group is a member of Namclear, a co-operative venture between the four Namibia-based commercial banks. Namclear is a service provider to the banking industry with the local clearing of interbank transactions as its core service.

Bank Gaborone is a member of the Bankers Association of Botswana (BAB) which consists of the 12 clearing banks in the country, including the Reserve Bank (Bank of Botswana). The BAB in turn owns and operates the Botswana Automated Clearing House (BACH), which is responsible for the clearance of all domestic cheque and electronic funds transfer (EFT) payments. Bank Gaborone also participates in the BISS (Botswana Interbank Settlement System) which is owned and operated by the Bank of Botswana. The BISS operates separately from the BACH and allows for Straight Through Processing (STP) of EFTs. BISS is used primarily by the treasury departments of the participating banks and is the system used for industry settlement.

Cavmont Bank is a member of the local clearing house, Zambia Electronic Clearing House Ltd (ZECHL), which is a non-profit joint venture between the Bank of Zambia (BoZ) and a consortium of commercial banks.

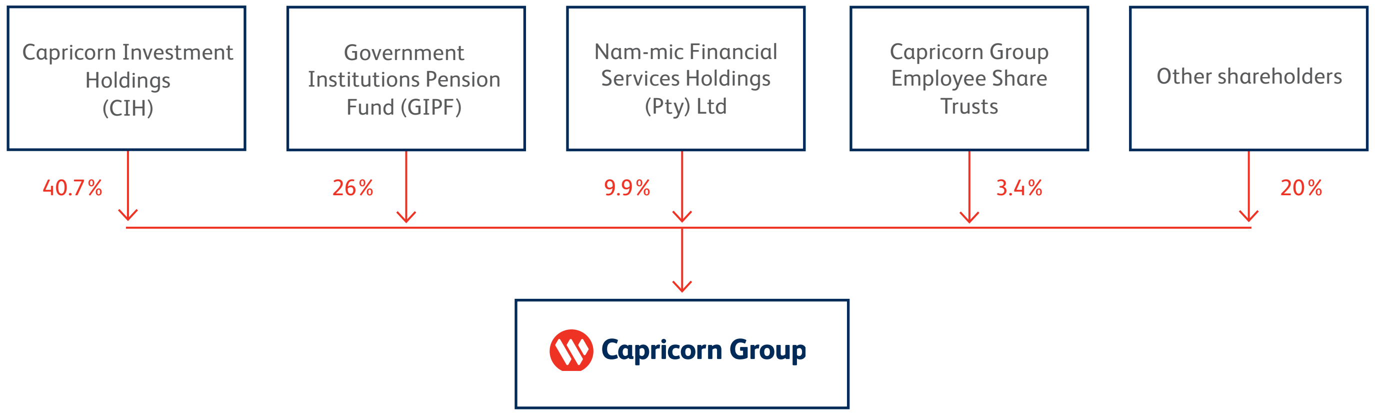
Shareholding

The ownership profile of Capricorn Group changed significantly during the year following GIPF's acquisition of a 25% interest in the issued ordinary shares from CIH and others. As Namibia's largest institutional investor, the GIPF, together with CIH, now acts as the group's shareholders of reference.

Read more about the transaction in the leadership report on page 6.

Capricorn Group benefits from a diversified and empowered shareholder base. With the GIPF shareholding transaction completed, the group's total direct and indirect black shareholding exceeds 40%.

Below is the shareholding in Capricorn Group as at 30 June 2017.



Shareholding analysis

	2017	2016
Number of shares in issue	516,878,336	505,280,000
Number of shares traded	14,963,488	11,028,526
Value of shares traded	258,799,214	181,594,642
Closing price (N$ per share)	18.09	17.24
High (N$ per share)	18.09	17.25
Low (N$ per share)	16.85	15.55
Price earnings	10.0	9.5
Price to book	1.8	2.0

Public and non-public shareholding

	Number of shareholders	Percentage of total shareholders	Number of shares in issue	Percentage of issued share capital
Public	4,637	99.6	103,592,313	20.0
Non-public	18	0.4	413,286,023	80.0
Total	4,655	100	516,878,336	100

Distribution of shareholders per category

	Number of shareholders	Percentage of total shareholders	Number of shares in issue	Percentage of issued share capital
Individuals	4,357	93.6	51,128,936	9.9
Corporate bodies	89	1.9	266,180,535	51.5
Nominees and trusts	180	3.9	50,302,235	9.7
Pension funds	29	0.6	149,266,630	28.9

Shareholder spread by beneficial owner

	Number of shareholders	Percentage of total shareholders	Number of shares in issue	Percentage of issued share capital
1–1,000	1,869	40.1	1,209,610	0.2
1,001–50,000	2,586	55.5	21,689,093	4.2
50,001–100,000	63	1.4	4,631,089	0.9
100,001–10,000,000	133	2.9	83,075,320	16.1
10,000,001 and above	4	0.1	406,273,224	78.6
Total	4,655	100	516,878,336	100

Capricorn Group employee profile

Capricorn Group employees are employed by the entities as set out in the diagram on page 32. The most substantial portion of the group's employees is permanently employed. The following table summarises the group's employee profile as at 30 June 2017:

	Permanent employees	% male	% female	% permanent	% contract	Total 2017	Total 2016
Namibia	1,588	36	64	98	2	1,620	1,618
Botswana	252	33.7	66.2	96.3	3.7	258	250
Zambia	258	54.8	45.2	98.9	1.1	261	241
Total and average %	2,107	38	62	97.8	2.1	2,120	2,109

Geographic footprint

258
Permanent employees

16,717,000
Population

Kwacha (ZMW)
Currency

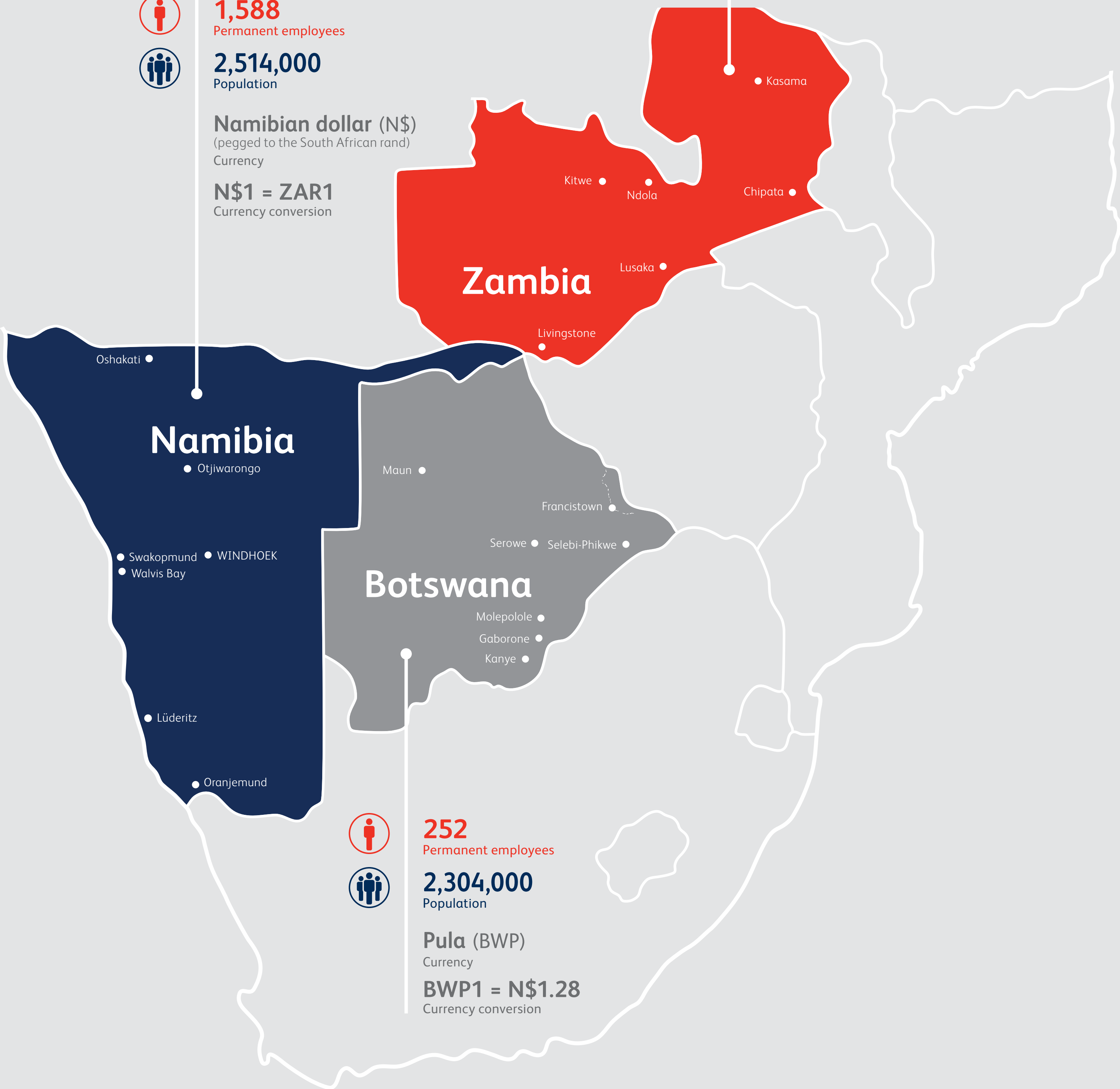
ZMW1 = N$1.43
Currency conversion

1,588
Permanent employees

2,514,000
Population

Namibian dollar (N$)
(pegged to the South African rand)
Currency

N$1 = ZAR1
Currency conversion



252
Permanent employees

2,304,000
Population

Pula (BWP)
Currency

BWP1 = N$1.28
Currency conversion

Total ATMs and Cash Express machines

Namibia	326
Botswana	17
Zambia	46

Total branches

Namibia	55
Botswana	9
Zambia	20

Contribution to net profit after tax

Namibia	96%
Botswana	4%
Zambia	0.3%

	Namibia	Botswana	Zambia
Gross domestic product 2016	1.2%	2.9%	3.3%
Expected GDP growth for 2017	1.8%	3.6%	4.0%

04 OUR STRATEGIC LANDSCAPE AND MATERIAL MATTERS

Trends and opportunities in financial services

While the rise of the African continent continues, China, followed by India, is expected to overtake the United States (US) as the world's largest economy towards 2030. The biggest increase in labour force will be in countries such as Nigeria, Pakistan and the Philippines, while Nigeria is expected to be claiming the highest GDP growth rate in the next few decades up to 2050. Urbanisation will accelerate, which will be characterised by an increase in megacities of which six will be in Africa by 2030 (compared to seven each in China and India), namely Cairo, Kinshasa, Lagos, Dar es Salaam, Johannesburg and Luanda.[1]

Governments across the world have to contend with changing demographics, economic interconnectedness, public debt, climate change and its associated resource stress, as well as urbanisation.

The competitive environment that will develop towards 2030 will therefore require that financial services groups reconsider geographical footprints and strategies as trade globalisation continues. Data-driven, behavioural customer strategies, supported by flexible and dynamic business models, will create a competitive advantage.

Incursions from, and involvement of the state in the structure and operation of financial services groups, will increase as self-regulation suffers increasingly low levels of credibility.

Open architecture is expected to dominate the financial services landscape by 2030 with increased competition in retail distribution, which will be driven, among others, by mobile banking as the leading platform. Highly personalised and tailored offerings are set to be the norm, with technology functioning primarily as a relationship enabler.

Resource scarcity will force financial services groups to reconsider financing priorities – and the associated risks to be managed. Over the past three years, all three Capricorn Group countries increased their competitiveness according to the Global Competitiveness Report, with Zambia remaining a factor-driven economy and Botswana on its way to becoming an efficiency-driven economy, as is already the case with Namibia.

Domestic market size is a competitiveness detractor in all three countries in which Capricorn Group operates, with Namibia being the smallest.

One of the biggest disruptors to competitiveness in global financial services is the rise of Fintech, most notably where Fintech start-ups are stepping in between banks and their customers with low-cost and innovative solutions. To maintain and increase competitiveness and create value for stakeholders, it is essential that Capricorn Group actively explores Fintech partnerships, accelerators and platforms. The same applies to InsurTech, which is disrupting the traditional intermediated insurance business model.

Read more about Capricorn Group's four strategic choices and their response to developing trends and opportunities on page 50.

Operating context

Namibia

The Namibian economy was under severe pressure in the past years as growth slowed to 1.2% in the 2016 calendar year, from 6.1% in 2015. Following four quarters of negative growth, the economy is currently in a recession. Government spending was tightly curtailed with a concomitant and significant impact on market liquidity. Policy rates in Namibia remained stable over the year, however due the challenges experienced within the overall market liquidity, short-term money market rates saw a drastic increase with a significant deviation to that of the South African yield curve.

As a result of these challenges, the banking sector experienced significant increases in the cost of funding, which was exacerbated by low credit growth and sluggish business activity.

[1] Source: The long view: how will the global economic order change by 2050? – PwC, February 2017

Consumer price inflation moderated from its peak of 8.2% in December 2016 to 6.1% at the financial year-end. Unemployment is on an upward trajectory, increasing from 28.1% in 2014 to 34% this year, according to the latest Labour Force survey based on the broad definition of unemployment.

Namibia was rated by Fitch in April 2017 as BBB- with a negative outlook on an international scale while Namibia was upgraded to AAA status on a regional scale. Shortly before publication of this report, Moody's downgraded Namibia's foreign debt to BA1, its first sub-investment grade ever, with the outlook remaining negative.

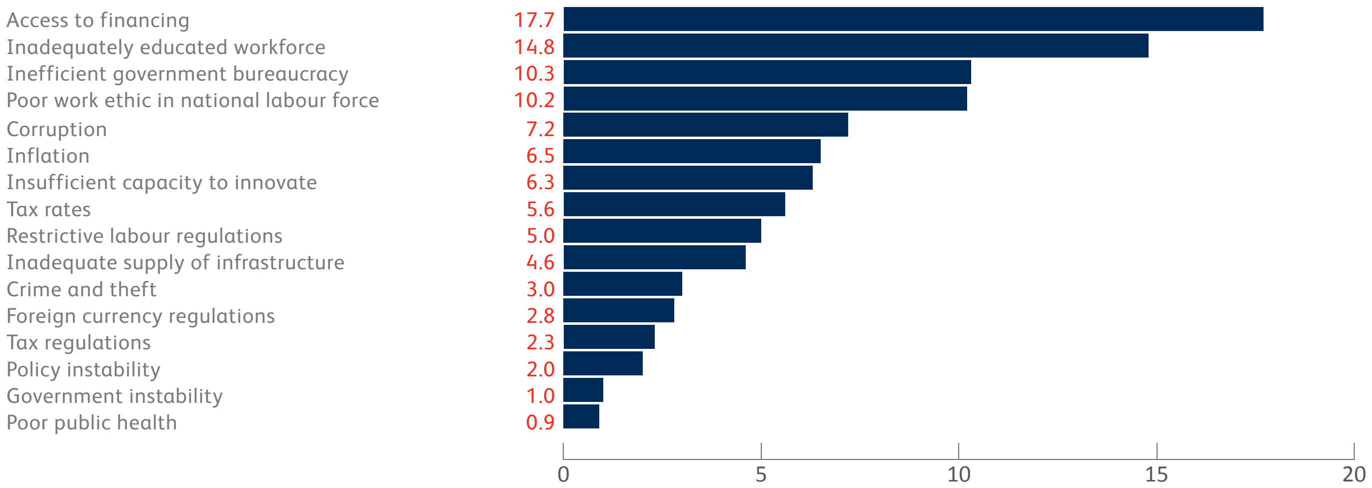
Uncertainty around the New Equitable Economic Empowerment Framework (NEEEF) continued to affect business confidence. A revised bill has not yet been tabled in parliament. The President has extended an invitation to Namibian business to provide alternatives to the current bill and framework.

According to the Namibia Financial Stability Report of April 2017, the banking sector continues to be sound and well capitalised, with a consistently low NPL ratio of 1.5% and sufficient buffers to cushion any potential volatility in liquidity and profitability. The payment system infrastructure also continued to perform efficiently and effectively.

In March 2017, a new macro prudential regulation in the form of loan-to-value (LTV) ratios for non-primary residential properties took effect. This policy tool aims to curb speculation in the residential housing market segment and thereby reduces the exposure of banking institutions to mortgage loans. It is also expected that LTV will promote responsible borrowing while giving preferential access to housing for first-time buyers in Namibia.

Economic growth should rebound somewhat in 2017 based on a decelerated pace of the construction industry contraction as well as expectations of further growth in the mining sector. Domestic economic growth is expected to improve to 1.2% in 2017. From 2018 onward, GDP growth is likely to be supported by an expansion in uranium mining and slower pace of contraction in construction activity. The Namibia Statistics Agency predicts that private sector credit extension is expected to recover and average between 7% and 8% for the 2017 calendar year.

Most problematic factors for doing business Source: World Economic Forum, Executive Opinion Survey 2016



The Global Competitiveness Report 2016–2017 – Klaus Schwab, World Economic Forum

Botswana

Following a sharp economic slowdown in 2015, Botswana saw a strong recovery in 2016, with growth expected to post 3.6% for the year 2017. While inflation remained relatively low during 2015 and 2016, largely as a result of softer oil prices, it is expected to start increasing to 3.5% in 2017.

The financial services industry in Botswana has changed fundamentally over the past few years. Competition has intensified as banks and non-traditional competitors enhance their efforts to differentiate themselves to grow market share. The macroeconomic landscape has shifted with lower inflation and interest rates, coupled with increased regulation and high unemployment. Multiple bank rate cuts and the moratorium on fees squeezed banks' profit margins and forced them to alter their strategies substantially. In addition, consumers' preferences have shifted due to the influence of technology which results in consumers becoming more informed and demanding. Mobile money continues to gain popularity among Batswana as it provides a hassle-free way to send money.

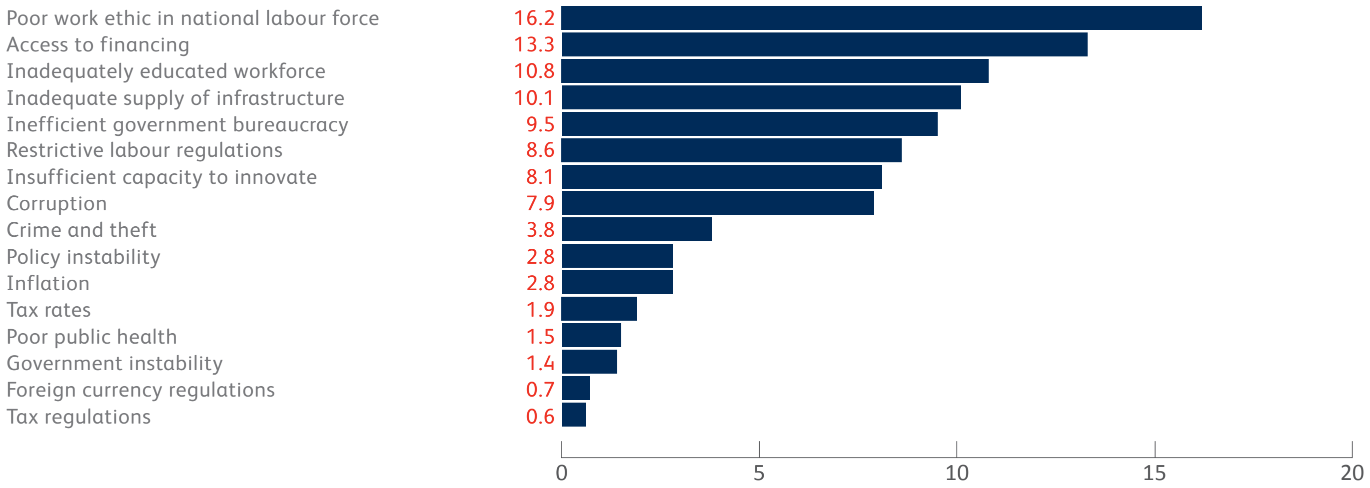
Opportunities in the Botswana market relate mainly to the unbanked population segment, with strong emphasis placed on youth propositions, considering that a third of the population is under 35 years of age. Bancassurance offers further opportunities as current penetration is low.

Challenges to be overcome include low economic growth as a result of reduced demand for diamonds as well as drought conditions. Unemployment levels remain high and fluctuations in liquidity cause a degree of uncertainty.

Banks are dealing with increasing regulatory and compliance costs and have shifted their focus towards non-interest income as a way of mitigating volatility in interest income.

Most problematic factors for doing business

Source: World Economic Forum, Executive Opinion Survey 2016



The Global Competitiveness Report 2016–2017 – Klaus Schwab, World Economic Forum

Zambia

Zambia has a highly competitive banking industry with 19 registered commercial banks – including subsidiaries of the larger United Kingdom (UK), West African and South African banks – of which eight entered the market in the past 14 years. With about 60% of the population living in rural areas, financial inclusion is at the forefront of the sector agenda.

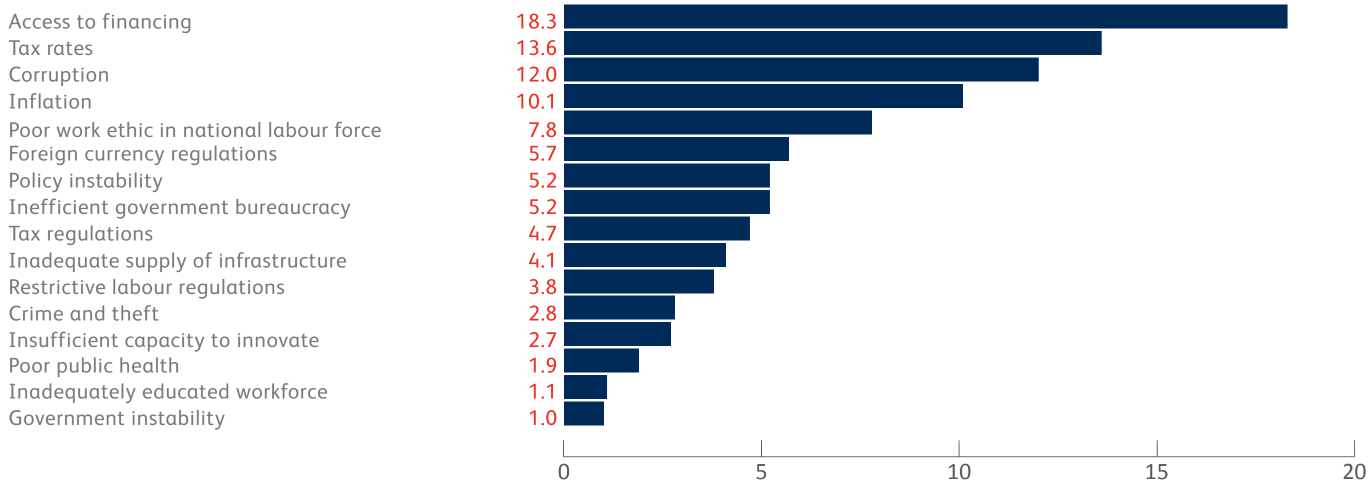
Zambia's economy is recovering from a period of increased expenditure and fiscal deficits, slowing demand for copper, low agricultural output and an electricity supply deficit that put considerable indirect pressure on consumers' disposable income.

Interest rates are on an easing trajectory. The BoZ policy rate currently stands at 11% (2016: 15.5%) with inflation at 7% (2016: 15%) and the currency more stable than in the previous two years. The statutory reserve ratio, which increased from 6% to 18% over the past few years, has also been reduced to 9.5%. These indicators are geared towards lowering the cost of funding and increasing liquidity – with the objective of stimulating economic growth.

Significant power supply challenges have been addressed. As the second largest copper producer in Africa, Zambia is heavily reliant on international copper prices, which have started increasing again. This led to increased confidence in the mining sector. Technology is also expected to be a significant growth driver due to increased competition in the mobile and data sector.

Most problematic factors for doing business

Source: World Economic Forum, Executive Opinion Survey 2016



The Global Competitiveness Report 2016–2017 – Klaus Schwab, World Economic Forum

Country*	Population ('000)	Urban population (% of total)	Gross domestic product (GDP) per capita (PPP valuation, USD)	Annual real GDP growth % 2007–2015
Botswana	2,304	52.0	15,845.59	4.97
Namibia	2,514	46.1	10,753.99	4.99
Zambia	16,717	39.7	3,898.59	5.59
Africa	1,214,428	40.1	4,973.48	4.01

* Source: Africa Development Bank 2016 Statistics Report

Capricorn Group's strategic response

Capricorn Group's strategic review of 2017 included extensive consideration of the external factors as these impact the group's ability to create value. This demonstrated a deliberate intent that evolved from a more traditional reflective approach to one that is future orientated and based on data, robust discussion and debate. Process participants engaged with information and insights derived from the summarised financial services trends and opportunities provided in this section which, combined with the operational context drivers, informed the next strategic cycle.

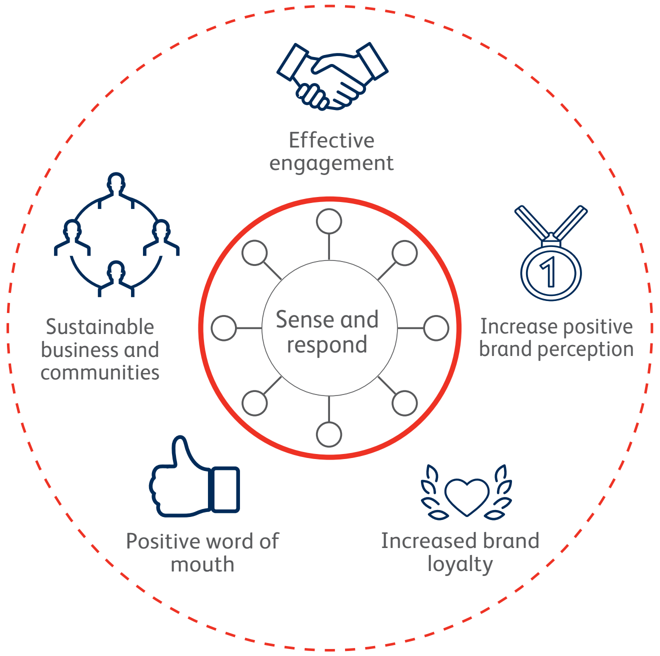
Read more about the group's response in the section on page 50.

Capricorn Group's formal approach to stakeholder engagement was initiated in 2015 and included the development of a stakeholder relationship management and engagement framework and policy based on sound, transparent and ethical business practices.

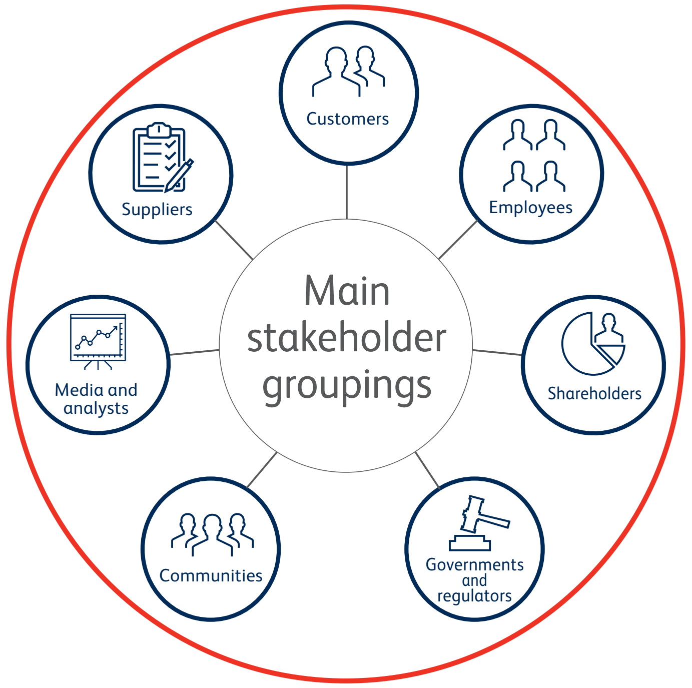
Our stakeholders

The group believes that stakeholder engagement is important because it:

- enables the group to sense the needs of stakeholders and to respond appropriately
- ensures engagement with stakeholders in a customised, coherent and consistent way across the group
- enables better planned and more informed policies, programmes and products/services aligned to 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 that the group places on engaging with its stakeholders



As part of the initial stakeholder mapping process, the group gained an understanding of how stakeholders and Capricorn Group entities influence each other. The main stakeholder groupings were identified and engaged accordingly.



Stakeholder feedback from this process was included in the materiality determination process in preparation for the 2017 integrated report. To enhance the materiality and stakeholder engagement processes, Capricorn Group has now commenced testing the robustness and appropriateness of the material matters with stakeholders in preparation for the 2018 integrated report. Read more about these material matters in the section that follows.

To illustrate the group's commitment to stakeholder engagement, a group communications and stakeholder engagement practitioner was appointed who is responsible for supporting the implementation of the stakeholder engagement strategy in all group entities. This includes support for each entity's planning process and implementation tracking in Namibia, Botswana and Zambia. This role also involves creating engagement opportunities that will help the group to build sustainable relationships and protect its reputational and brand value.

Read more about the ways in which Capricorn Group creates value for stakeholders on page 56.

Matters that are material to Capricorn Group

Capricorn Group's material matters constitute those risks, opportunities or issues that could substantively affect the group's ability to create value in the short, medium and long term. It therefore considers the financial impacts of key environmental, social and regulatory themes on the sustainable performance, liquidity and financial health of the group.

These matters were identified for the first time in 2016, and involved a range of internal specialist disciplines, management, executives and the board. In preparation for the 2017 report, the Capricorn Group board and executive leadership team reviewed and discussed the material matters during a group strategy session. Input into the discussion included a review of material matters as reported on by financial services companies internationally, with particular input from the newly acquired businesses in Botswana and Zambia.

The process was further enhanced by the integration of material matters with the risk register and stakeholder themes. This included the allocation of internal key performance indicators (KPIs) to the material matters to ensure that what is measured and managed across the group is material to the group's ability to create value. Financial and non-financial indicators have been identified to create balance and have been formulated to allow comparability.

The material matters included below were furthermore checked for their alignment with the strategic objectives of the group before final approval by the board in June 2017. Details about the strategic objectives follow in the section on page 50.

Ability to meet individual customer needs and expectations

Megatrends such as urbanisation, enabling new technology and globalisation, contribute to changing customer demographics, needs and expectations. Needs range from seeking advice on personal financial options to addressing financial literacy, access to infrastructure and a range of convenience expectations – such as real-time access from any location. A further megatrend relates to the consumer shift towards personal trust relationships enabled by technology.

The group understands that customer centricity is becoming a core competency that has data, statistics and analytical modelling as essential elements. A customer-centric approach is critical to creating value and requires insight into the evolving characteristics and needs of current and prospective customers, as well as customers' customers. These insights enable increased product flexibility, are attracting new market segments and allow the group to expand in current markets. It also highlighted prospects for Capricorn Group as a platform partner.

How do we manage and measure this matter?

The group meets customer needs and expectations with a specific focus on Treating Customers Fairly (TCF) principles, as well as building a capability to aggregate customer feedback through all touchpoints.

A core measurement to determine if the group can meet individual customer needs and expectations relates to the number of substantiated complaints about breaches of customer privacy. Employees are continually educated on the seriousness of breaches of privacy and the code of ethics and conduct clearly states the sanctions that may be imposed.

Who is this important to?	Increasing or decreasing impact trend?	Strategic choices that address this material matter:	
• Customers • Employees	↑	Building the foundation in Namibia, Botswana and Zambia Target digital opportunities	Read more about this material matter in the leadership report from page 6.

Fintech, Insurtech and the underbanked

Non-traditional competitors are designing flexible and dynamic solutions in direct competition with banks. These solutions are often different from the traditional offerings by financial services providers. Non-traditional competitors with access to data can use rapidly advancing technology to disrupt existing markets.

The rise of Fintech companies is challenged by the fact that the financial services sectors remain highly regulated, which denotes fairly high barriers to entry, as a banking licence and strong expertise remain critical for sustainable offerings. Credit risk expertise, for example, is an essential capability in competitiveness. This provides existing financial services players with some advantage, given that they overcome the internal barriers of limited innovation and a reliance on boiler-plate methods which are premised on existing infrastructure and technology.

The rise of Fintech companies is enabling new financial services infrastructure and processes which, according to research by the World Economic Forum, will require deep collaboration between incumbents, innovators and regulators. Fintech companies are able to deliver more tailored, convenient and affordable solutions across multiple market segments and including underserved populations and communities. The payment solutions environment is an example of a highly competitive and evolving area of banking.

A large portion of the African population does not have access to useful and affordable financial products and services that meet their needs and are delivered in a responsible and sustainable way. This includes access to transactions, payments, savings, credit and insurance. Through Fintech and Insurtech these markets become viable areas for expansion.

Capricorn Group recognises the importance of the unbanked and underbanked market segment and supports the focus of the World Bank Group's Universal Financial Access 2020 initiative: to ensure that people the world over have access to a transaction account.

How do we manage and measure this matter?

Innovation, particularly through Fintech and Insurtech initiatives, is creating non-traditional, affordable and convenient options for people to save, send and spend money without using cash. These options are attractive to the new-to-bank market, and are actively explored by the group through, for example, the recently launched EasyWallet and GoPay. Capricorn Group is furthermore recruiting dedicated resources who will form alliances with other market players in serving the unbanked and underbanked through mutual initiatives.

The group has a systematic process for understanding current and evolving industry economics, emerging business models and non-traditional new entrants. It differentiates itself through tailored offerings, service levels and relationships. Direct relationships with customers are difficult to replicate, and the group is extending this capability to include business partners with the objective of establishing strategic partnerships, joint ventures and alliances. The group also has a historic understanding of the markets in the countries where it operates, which provides relevant competitive insights.

Proximity and geographical accessibility are some of the key barriers in reaching the unbanked, particularly where branches are located too far away from where potential customers reside. On the other hand, traditional brick and mortar solutions are not always cost-effective in reaching the poor, because of the costs involved in setting up the infrastructure and the cost of the customer to get to the branch. Although the group measures progress in establishing new locations, it is concurrently creating financial inclusion through increased mobile banking and wallet options, which do not require physical locations.

Who is this important to?	Increasing or decreasing impact trend?	Strategic choices that address this material matter:	
• Shareholders • Government and regulators • Communities	↑	Strategic partnerships Target digital opportunities	Read more about this material matter in the leadership report from page 6.

Increasing regulation and our relationship with governments and regulators

Governments in the region drive policy and regulation, which should create conditions for social, political and commercial development, and which can have a significant impact on the ability of Capricorn Group to grow and expand.

Members of the Southern African Development Community (SADC) are aligning themselves with global best practice in building a legislative regime that aims to foster trust and confidence in the sector and between its participants. For the majority of African countries, the focus in the banking sector has been on migrating to Basel III and its associated capital and liquidity requirements, while reinforcing the prudential aspects of regulation.

In Namibia, regulations were passed this year to increase the deposit requirements for investment properties, which have slowed down the property and construction markets. Further requirements regarding ATM fees are also under review.

The relevance of and need for formal and structured engagement with government is evident when considering the need to navigate complex regulatory changes. This is further emphasised by initiatives such as the Harambee Prosperity Plan for Namibia, which contains several elements that invite active participation from the group. These range from access to finance, to housing initiatives and broadband infrastructure development.

Namibia, Botswana and Zambia are all member states of the SADC – an inter-governmental organisation that aims to erase poverty and achieve regional integration. This creates a further channel for Capricorn Group to build relationships.

Current engagement with regulators and governments is mainly on board and executive leadership levels and includes interaction with departments such as the Ministries of Finance and Industrialisation, Trade and SME Development, Private Enterprise and bank and financial institution regulators.

How do we manage and measure this matter?

The group has a solution-based approach to regulatory change that aims to mitigate the risk of increasing cost and complexity, and to manage the trade-offs in capacity allocation to ensure that it maintains and improves the risk management and controls that are suited to the region's financial and regulatory landscape.

The group complies fully with legislation and remains cognisant of its responsibilities of maintaining operating licences, and protecting its reputation and shareholder value. This includes comprehensive front-line training, systems development and technical support as well as engagement with the relevant regulators around implementation challenges and opportunities.

Compliance is proactively managed through the Capricorn Group compliance framework and the central risk and compliance departments. The group continuously develops and manages the business risk and control framework to ensure compliance.

Collaborative projects between Capricorn Group and governments are further measures of engagement success. Examples include the Cancer Apple Project and BizzKids youth entrepreneurship initiative and a recent panel discussion in collaboration with the Economic Association of Namibia to explore the new National Development Plan 5 (NDP5).

Increasing regulation and our relationship with governments and regulators (continued)

How do we manage and measure this matter? (continued)

The NDP5 aims to accelerate inclusive and equitable growth over the period 2017–2022. Investment focus will be on research and development, skills development, diversification of economic activities and greater value addition. Capricorn Group identified a range of sector-specific opportunities to support efforts to transition Namibia from an input-dependent economy into a knowledge-based economy.

Capricorn Group's stakeholder engagement framework, plan and platform provides internal resources with guidelines to record all engagements and report on these based on each entity's stakeholder engagement outcomes. A pilot project is envisaged for the next financial year to test the roll-out and establish qualitative measures.

Who is this important to?	Increasing or decreasing impact trend?	Strategic choices that address this material matter:	
• Government and regulators	↑	Strategic partnerships Effective strategy execution	Read more about this material matter in the sustainability and ethics committee report on page 88.

A combination of regional challenges

The African continent will be one of the global growth drivers towards 2050. Urbanisation, resource challenges and climate change are the main factors impacting the economic landscape in southern Africa, resulting in poverty, skills shortages and social inequality.

Resources will be particularly vulnerable to growth projections. Major changes are, for example, expected in the generation and delivery of energy, along with significant strategic choices in the financing of these activities. Renewable sources of energy are already an attractive opportunity – one which banks will be able to influence as part of a larger drive to create new energy markets.

The threat of water shortages and electricity supply restrictions is at different levels throughout the region, but it impacts overall economic activity. This is exacerbated by further changes in climatic conditions that can result in prolonged drought and constrained industrial property development and agricultural activity.

As members of the SADC, the three countries in which Capricorn Group operates face further similar challenges relating to trade, education, health, defence, security and political dynamics. A collective and integrated response by group entities is needed to overcome many of these challenges.

Namibia has a unique and interdependent relationship with the South African economy, with the Namibian dollar being pegged to the South African rand. Muted growth, continued threats to the South African sovereign rating and political challenges are all relevant and impact Namibia's prospects and access to affordable foreign capital.

Over the last three years, according to the Global Competitiveness Index, Zambia, Botswana and Namibia have all become more competitive, with Botswana achieving the comparably highest ranking.

A combination of regional challenges (continued)

How do we manage and measure this matter?

Multinational companies in emerging markets, such as Capricorn Group, are well positioned to deal with and meet regional challenges due to their diversified footprint, their ability to apply learnings from one territory to another and their approach to systemic risk management.

The value-added statement on page 57 illustrates the financial value created for different stakeholders in the region. The group contributes to local social agendas through its corporate social investment projects.

Increased local procurement is one of the ways in which regional challenges can be addressed as it ensures employment, enterprise development, sustainable growth and income for businesses in the three countries in which the group operates. It relates to expenditure directed to companies registered in the countries and excludes consultant fees.

Fostering an understanding of, and managing Capricorn Group's environmental responsibilities will assist the group in managing its own impact and encouraging wider stakeholder responses to environmental risk as one of the region's challenges.

In Namibia, the mining, agriculture, fishing and construction industries are large contributors to GDP. Bank Windhoek therefore has large credit exposure to most of these industries. Agricultural exposure relates to natural risks such as drought and pests, with large regions affected by water scarcity.

The bank manages this material matter by only financing companies that have an allocation of fishing quotas and mining rights with lending conditions including collateral requirements based on credit risk profiles. This is currently managed on a client basis, but will in future rely on a portfolio view. Ad-hoc reports currently measure concentration risk and the impact of specific events.

Agricultural exposure for the Bank Gaborone book is 5% of total borrowings, while mining exposure is 1%. The agriculture exposure remained stable for the past year due to prudent decisions considering the recent drought. Bank Gaborone intends to continue supporting commercial farmers and the farming sector and is expected to grow its exposure to this sector.

Who is this important to?	Increasing or decreasing impact trend?	Strategic choices that address this material matter:	
• Employees • Government and regulators • Communities	➡	Strategic partnerships Effective strategy execution	Read more about this material matter in the operating context on page 34 and the sustainability and ethics committee report on page 88.

Constrained market liquidity

International and regional trade flows are sources of volatility as well as opportunities that demand of market players that they adapt continuously. Constrained market liquidity and uncertainty is expected to remain challenging, particularly in Namibia, and to affect all participants in the financial services industry.

The sustained and increased relevance of this material matter for the current reporting period has resulted in a sharp reduction in private sector credit extension in Namibia which, in turn, limits growth opportunities. In Zambia, the cost of funding is on a downward trajectory, with easing interest rates which should stimulate economic activity. Botswana is experiencing increasing inflation and liquidity constraints.

How do we manage and measure this matter?

Constrained and unpredictable market liquidity can impact Capricorn Group's ability to fund the needs of the economy, thereby constricting growth. Guided by a liquidity risk management process and framework, the group strives to hold an adequate liquid asset surplus that can cater for unexpected outflows. The group has also put in place N$1 billion liquidity asset investments to fund a committed contingency facility to the three operating banks. This has significantly reduced the liquidity risk within the group.

Liquidity ratio:

54% liquidity surplus above minimum requirements

90.8% LFR ratio

Who is this important to?	Increasing or decreasing impact trend?	Strategic choices that address this material matter:	
• Shareholders • Government and regulators • Funders	➡	Effective strategy execution	Read more about this material matter, particularly the GIPF funding facility, in the leadership report from page 6.

Demands for specialist skills driving focused development, training and diversity initiatives

Capricorn Group's growth ambitions require the availability of specialist skills, including technical and specialised competencies, qualifications and experience related to financial services, compliance and risk management, IT and digital development. With changing client demographics, the group's skills requirements are also shifting, so that, for example, meaningful international experience and a global orientation are required.

Whereas these skills are often limited or unavailable in the countries the group operates in, the formation of Capricorn Group has created a regional skills pool, where there is the potential to transfer skills, and broaden career opportunities in the group as a recruitment benefit. The attraction and retention of engaged, high-performing and highly skilled employees remains critical, and is underpinned, in all three countries, by the continued commitment to prioritise the development and employment of local skills to impact positively on employees, communities and the group.

How do we manage and measure this matter?

The Capricorn Talent Academy conducts effective leadership development interventions that enhance required capabilities.

In terms of succession in Namibia, priority is given to Namibian employees as successors or understudies to senior positions occupied by non-Namibians.

The group provides financial support to employees that have indicated willingness to take up tertiary studies to advance their careers through the employee study financial assistance scheme.

The Candidate Banker Trainee Programme (CBT) serves as the group's flagship development and empowerment programme for future bankers. The rigorous preparation for future bankers is proving to be successful as most delegates who have completed the programme have advanced through the ranks of the organisation.

The group also started to address the shortage of key critical skills needed within the retail banking space with the introduction of a Graduate Development Programme focusing on key streams in the banking industry. The Accelerated Training Programme (ATP) is another initiative that aims to identify, attract, train and retain talented employees. It forms part of the talent management strategy to fast-track talented employees within the group. Bursary holders and selected interns – identified according to key critical skills needs - are allocated to branches and departments on an ongoing basis as part of the group's contribution to enhancing quality and capacity of experiential learning. Skills are retained by giving employees the first option to apply for vacant positions before external candidates are considered.

Training plans are based on a thorough training needs analysis. Completed training is reported to the executive leadership team on a monthly basis and also quarterly to the board.

Demands for specialist skills driving focused development, training and diversity initiatives (continued)

How do we manage and measure this matter? (continued)

A total investment of close to N$12 million was made in training initiatives, with a further N$4.5 million allocated to external bursaries and external studies for employees for 2016/17.

The table below sets out the total training hours for group entities:

Bank Windhoek, CAM and Namib Bou	Females	Hours	Males	Hours
Senior management	6	168	2	28
Middle management	42	1,365	40	1,169
Skilled/supervisors	349	10,738	186	5,971
Skilled	121	3,437	111	4,221
Semi-skilled	5	119	1	7
Total	523	15,827	340	11,396

Cavmont Bank	Gender	Employees	Interventions	Hours
Executive leadership team	Male	5	2	180
	Female	3	4	152
Senior management	Male	8	6	223
	Female	4	3	92
Middle management	Male	39	12	665
	Female	22	10	459
Junior management	Male	5	3	68
	Female	6	4	52
Clerical	Male	28	6	634
	Female	26	7	324

Who is this important to?	Increasing or decreasing impact trend?	Strategic choices that address this material matter:	
• Employees • Communities	➡	Building the foundation in Namibia, Botswana and Zambia Effective strategy execution	Read more about this material matter in the leadership report from page 6, the sustainability and ethics committee report on page 88, and the remuneration report on page 70.

Enhancing and optimising management and operational systems

Continuous change and innovation in systems, and the increasingly novel solutions offered by IT, bring opportunities for enhanced internal effectiveness and process optimisation. This directly and indirectly increases the positive impact on shareholders, employees and customers. Capricorn Group has identified operational excellence as the core component of its competitiveness, which has important implications for the group's management style, corporate culture and performance management system.

Operational excellence relies on Capricorn Group's modern, flexible and efficient core system, and the group's ability to execute in accordance with international best practice in terms of efficient operations.

How do we manage and measure this matter?

The group's existing portfolio review process enables the systemic identification of redundant or underperforming businesses across the portfolio and identifies opportunities for cross-business collaboration. Risks related to the management of operational systems are addressed through a well-developed IT governance structure.

N$67.1 million was invested in technology and operational systems during the year to support a range of internal targets towards achieving operational excellence. Metrics address business processes, customer service and product activation, and are assessed on a monthly basis.

Who is this important to?	Increasing or decreasing impact trend?	Strategic choices that address this material matter:	
• Customers • Employees • Shareholders	↑	Effective strategy execution Building the foundation in Namibia, Botswana and Zambia	Read more about this material matter on page 17.

Rising incidences of financial crime, corruption and fraud

Globally, individuals and businesses are threatened by the rising number of incidences, the growing scale and the increasing complexity of financial crime. The aforementioned includes money laundering, identity theft, card skimming and phishing. Failure to identify and manage these risks could result in reputational risk and a loss of income, which would jeopardise the group's growth and contribution to a stable and trustworthy financial services industry.

Although Capricorn Group experienced fewer incidents and lower loss due to improved controls, this remains a high priority due to the increasing sophistication and scale of financial crime and especially in the area of cybercrime.

The impact of financial crime, corruption and fraud is best mitigated by a collective and collaborative approach by the industry and relevant stakeholders. Sharing data and centralising resources are the most effective ways to identify risk and launch interventions that proactively prevent either systemic or unilateral threats.

How do we manage and measure this matter?

Capricorn Group is extending its proactive fraud detection capability and reinforces the values of personal integrity and ethics through culture-building initiatives and leadership development programmes.

The group uses technology to support the proactive prevention and identification of financial fraud before losses occur. Awareness campaigns aimed at employees and customers improve fraud awareness and empower people with the knowledge to stay informed about trends. Furthermore, internal awareness of information security priorities is created through device and data protection measures, incident responses and support mechanisms.

The group supports government law enforcement entities with investigations of financial crime.

Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour and organisational integrity have been implemented. The group has a code of ethics and conduct to which all directors and employees are required to adhere. The board sustainability and ethics committee has oversight of the Capricorn Group's ethics risk agenda and ethics framework.

Who is this important to?	Increasing or decreasing impact trend?	Strategic choices that address this material matter:	
• Customers • Employees • Government and regulators	↑	Effective strategy execution Target digital opportunities	Read more about this material matter in the risk and compliance report on page 76.

Our vision and strategic choices

Capricorn Group's growth and performance path is directed by its AsOne strategy, which aspires to position the group as a leader in financial services while delivering sustainable value for all stakeholder groups.

Over the past three years, for the 2014–2017 strategy, Capricorn Group developed strategy from a core competency perspective, resulting in the group being redesigned and building capabilities to set it up for future success and sustainability. The key considerations for the new structure that was put in place during 2017 were:

- structuring the group to support strategy implementation
- ensuring that the group is able to adapt rapidly to market and environmental changes
- leveraging scarce resources to the benefit of all
- pursuing growth opportunities through digital solutions, especially in the mass market
- enhancing cross-selling among group entities and strengthening the bancassurance capability
- promoting collaboration among group entities
- building capacity in critical areas that will drive the innovation agenda

For the strategic cycle of 2014 – 2017, the group had the following focus areas:

- customer value proposition
- employee value proposition
- stakeholders and sustainability
- digital channels
- benefits realisation management
- brand architecture

By the end of the financial year, these focus areas had been integrated into business practice and were operationalised.

Read more about the achievements for each focus area in the leadership report on page 16.

Four strategic choices were formulated to direct the group's strategic competitiveness in the next cycle towards 2020:

- Focus on building and extending the group's foundation in Namibia, Botswana and Zambia.
- Develop all-round capabilities in effective strategy execution that improves customer service.
- Explore strategic partnerships in Namibia, Botswana and Zambia.
- Explore technological/borderless/cyber opportunities that will define banking in the next 10–15 years.

During 2017, a new strategic cycle was initiated. The development process was anchored in data and included the operations in Zambia and Botswana. At the annual board strategic review session in March 2017, board representatives from all three countries came together to shape the group's future.

The group recognised that workplace culture is a key variable to execute effectively. The Capricorn Way was consequently developed and launched as a tool and embodiment of the shared culture to which the group aspires.

A further enabler of success was the development of a common strategic methodology across the group that will align the divisional strategies as they adapt and mature.

The implementation of Capricorn Group's strategy is premised on a flexible and dynamic business model, which aligns the purpose of the group, to be a connector of positive change, with the outcomes that the group achieves.

The Okavango Delta, Botswana

Capricorn Group exists to create opportunities for stakeholders and will continue doing this by recognising their life journey and responding appropriately to their needs.

05 HOW WE CREATE VALUE THROUGH THE GROUP'S BUSINESS MODEL AND THE SIX CAPITALS

Capricorn Group's business model aims to deliver on the group's strategic purpose and create value for stakeholders over the short, medium and long term. It operates as a system which transforms inputs through a range of business activities into outputs and outcomes.

Capricorn Group exists to create opportunities for stakeholders and will continue doing this by recognising their life journey and responding appropriately to their needs. The business model summary on page 54 sets out the various elements involved.

Financial and manufactured capital

Capricorn Group's banking, asset management and insurance activities are primarily shaped around the availability, use and creation of financial capital. Financial capital input takes the form of share capital and reserves and can be measured by the group's capital adequacy ratio (see the key measurements on page 81). Bank Windhoek, for instance, has made a strategic shift and renewed its focus on deposits as a source of financial capital. Whereas the bank traditionally had an asset-led approach, a challenging external environment, particularly regarding limited market liquidity, has now raised the importance of deposits and transactional accounts to increase the availability of financial capital and earnings capacity.

A key competency for the group is the ability to price for risk, which relies on its inherently strong institutional and market knowledge. This is supported by a decentralised decision-making model that allows branches at all three banks to manage loans and credit based on their understanding of their market and long-term relationships. A strong risk management culture, entrenched governance structures and a responsible investment philosophy underpin the management of financial capital.

The involvement of the GIPF as a new shareholder and funder has also secured the creation of a capital buffer to mitigate financial risk and provides sustainable and stable funding.

Read more about this facility in the leadership report on page 6.

Physical expansion predominantly takes the form of new branches and ATM facilities. These two channels are also the main forms of manufactured capital used and created by the group. Through mobile banking, however, the group is reducing reliance on these two forms of manufactured capital; thus, increasingly, financial capital flow can be distributed and managed through data networks and personal devices. Nonetheless, call centres and offices are likely to remain core examples of manufactured capital.

Human, intellectual, social and relationship capital

The group's brand purpose statement emphasises its role as a "connector of positive change". This role requires the use and application of human, intellectual, social and relationship capital.

Stakeholder engagement is at the core of these three capitals, as it increases aspects of all three through feedback, relationships, innovation, service improvements and higher levels of stakeholder satisfaction. It enables Capricorn Group to address any issues that prevent value creation and increases systemic awareness and responsiveness. Read more about stakeholders on page 38.

The Capricorn Way is a key enabler of human, intellectual, social and relationship capital as ways to unlock potential. It also defines the culture and set of behaviours that the group aspires to embed in all its engagements. This approach forms part of the recently developed employee value proposition (read more on page 16), which increases all three capitals in terms of employees. It is rooted in an entrepreneurial approach and deep, insightful relationships.

The group relies on the appropriate skills to deliver on the four strategic choices and on its brand promise. The creation of a pool of skills between the different entities, supported by a resource centre in Johannesburg in South Africa, is an example of how sustainable human capital is ensured. Targeted training, investment in human capital and the conception of capability models, ensure the delivery of operational excellence.

The group increases social and relationship capital through its corporate social investment projects. One of the group's flagship projects, the Cancer Apple project, raised a record amount of N$2.9 million during the 2016 calendar year. The project is a product of the collective effort of Bank Windhoek branches, clients, schools, the Cancer Association of Namibia and several business partners – and is evidence, too, of the strong social and relationship capital that has been created.

Read more about these projects in the sustainability and ethics committee report on page 88.

Natural capital

Capricorn Group is a relatively low-level consumer of natural resources in its business activities. The group's exposure to natural capital is more indirect, such as through the loans to and insurance of entities that rely on natural resources and which are at risk of climate change impacts. This includes industries such as mining, agriculture and construction.

The future availability of natural capital is primarily secured by the group's best practice Environmental and Social Management System (ESMS), which is used as a guide to credit allocation and lending activities. The future availability of natural capital could also have a significant impact on the future availability of financial capital.

BUSINESS MODEL: CONNECTOR OF POSITIVE CHANGE

As a connector of positive change

Capricorn Group

works according to

THE CAPRICORN WAY

Our purpose
Our beliefs
Our values
Our norms
Our behaviours
Our workplace

and is guided by

FOUR STRATEGIC CHOICES

1. Focus on building and extending the group's foundation in Namibia, Botswana and Zambia.
2. Develop all-round capabilities in effective strategy execution that improves customer service.
3. Explore strategic partnerships in Namibia, Botswana and Zambia.
4. Explore technological/ borderless/cyber opportunities that will define banking in the next 10 – 15 years.

that determine our requirements for

INPUTS

Six capitals

1. Financial capital
2. Manufactured capital
3. Human capital
4. Social and relationship capital
5. Intellectual capital
6. Natural capital

which are applied and transformed by our regional operations

Capricorn Group

A REGIONAL FINANCIAL SERVICES GROUP

that offer a range of products and services

LENDING	DEPOSITS	CASH MANAGEMENT
ADVICE AND PLANNING	INVESTMENT AND ASSET MANAGEMENT	FOREX
INSURANCE	PROPERTY DEVELOPMENT	TRANSACTIONAL

through a range of channels

ATM
BRANCH
APP
ONLINE
EVENTS
INDIVIDUAL

to individual and commercial clients

contributing to

POSITIVE CHANGE OUTCOMES FOR ALL STAKEHOLDERS

We create a range of outcomes for stakeholders, including customers, employees, shareholders, governments, regulators and communities. These relationships, and the value they create through positive connections, are set out on page 38.

- **19.5%** Return on average equity
- **N$5.1bn** Net asset value
- **N$492m** Taxes to governments
- **N$723m** To employees
- **16.8%** Capital adequacy

OUR PROGRESS AND PERFORMANCE MEASURES

which create future risks and opportunities (read more on page 19).

as a way to create a set of core competencies

CORE CONNECTOR COMPETENCIES

- Enterprise architecture
- Technology
- Relationships
- Institutional and market knowledge

Business model outcomes

Capricorn Group creates a range of outcomes for its stakeholders. These are briefly described below:

As a financial services provider, Capricorn Group partners with **customers** in growing their wealth, funding their business ventures and providing insurance to mitigate their unique risks. Customers trust Capricorn Group to safeguard their assets, provide them with advice, products and experiences that meet their needs and expectations. Capricorn Group's decentralised decision-making structure means that customers can connect with the group where it is convenient for them and can depend on a quick response, based on an understanding of local challenges and opportunities.

As a creator of skills, Capricorn Group provides stable employment and development opportunities for Namibian, Botswanan and Zambian people. As **employees**, they are able to advance their careers nurtured by a culture that is focused on building relationships and unlocking potential to drive positive change internally and externally with stakeholders – with rewards and recognition supporting high performance.

Read more about the above in the remuneration report on page 70.

Capricorn Group delivers stable, sustainable and attractive returns for **shareholders** seeking exposure to the financial sector of the NSX. The group's growth prospects, portfolio spread and solid governance give its providers of capital confidence in its ability to drive positive change, manage risks, meet competitive challenges and maximise new opportunities.

By adhering to high ethical standards, including all relevant legislation, guidelines and standards, Capricorn Group is a committed economic partner to the **governments** in the three countries in which it operates. In so doing the group is an enabling force for a stable and accessible regional financial services industry. Capricorn Group also maintains a close relationship with its **regulators**.

The group aligns its initiatives with governmental and regulatory imperatives and actively promotes initiatives that drive positive change, such as the Harambee Prosperity Plan, to guarantee a flourishing social and economic environment for all its stakeholders.

Through its social investments and sponsorship activities, and its ability to leverage interpersonal connections in an effective way, Capricorn Group has been creating value for communities through partnerships for more than 20 years. Beneficiaries and members of **communities** typically gain access to educational, entrepreneurial and health improvement opportunities that allow them to be more economically active. Capricorn Group ensures impact through collaboration and ensuring that these initiatives are aligned to government's social development agenda.

Financial value-added statement

Capricorn Group uses, creates and distributes financial capital through its business activities, to the benefit of a range of stakeholders.

Economic value added

for the year ended 30 June 2017

	2017 N$'000	2016 N$'000
Direct economic value generated		
Interest and similar income	3,626,477	2,963,244
Impairment charges on loans and advances	(57,998)	(60,779)
Non-interest income	998,185	953,804
Share of joint arrangement and associates results	79,194	98,528
Attributable to non-controlling interests	(8,192)	–
	4,637,666	3,954,797
Economic value distributed		
To suppliers	447,515	349,805
To employees	722,986	645,145
Dividends to shareholders	329,516	295,226
Preference dividends	1,743	5,641
Interest and similar expenses	1,976,980	1,505,102
To providers of funds	2,308,239	1,805,969
Normal tax	349,028	350,709
Value added and other indirect taxes	123,401	107,298
Skills development levies	5,674	5,954
Stamp duty	14,156	13,677
To government	492,259	477,638
To the community	6,535	8,400
	3,977,534	3,286,957
Economic value retained for expansions and growth		
Retained income	544,761	592,430
Depreciation and amortisation	72,995	44,233
Deferred tax	7,224	13,785
	624,980	650,448
Regulatory and other reserves		
Non–distributable reserves	35,152	17,392
Total value distributed and retained	4,637,666	3,954,797

06 CORPORATE GOVERNANCE REPORT

Governance and leadership

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, ethical practices and ensuring the appropriate application of governance practices and principles contained in the NamCode, the Corporate Governance Code for Namibia. The board believes that, based on the structures, policies and practices established, the group substantially applies the principles contained in the NamCode.

The board monitors the group's application of relevant corporate governance principles.

Governance events for 2017

- There was increased sustainability focus following the establishment of a group board sustainability and ethics committee in 2016, to provide an independent and objective body to assist the board in ensuring that Capricorn Group remains a good corporate citizen through the implementation of a sustainability and ethics strategy and reporting framework.
- Dirk Reyneke was appointed as a non-executive director on 19 May 2017.
- Koos Brandt retired as board chairman on 30 June 2017, but will continue to be a non-executive director. Johan Swanepoel, vice-chairman until 30 June 2017, was appointed board chairman with effect from 1 July 2017.
- Following the acquisitions of the group's interests in Zambia and Botswana, governance and reporting structures were streamlined to ensure appropriate group oversight over its investments. Each group company is directed by its own board of directors supported by board committees as appropriate. For example, each bank has its own board credit committee, board audit committee and board risk and compliance committee. Subsidiary board audit and board risk and compliance committees also report to the group board audit, risk and compliance committee. Where board work has been delegated to a group board committee, such committee reports back to the subsidiary boards.

Board of directors

The board plays a pivotal role in the group's corporate governance system. An overriding principle with regard to the board's deliberations and approach to corporate governance is that of intellectual honesty.

The board, as constituted by the Companies Act, is governed by the board charter. The purpose of this charter is to regulate how business is to be conducted by the board in accordance with the principles of sound corporate governance. The charter also sets out the specific responsibilities to be discharged by the board members collectively and the managing director and chairman in their respective capacities.

Role of the board

An important role of the board is to define the purpose of the group (which is its strategic intent and objectives as a business enterprise) and its values, which constitute its organisational behaviour and the norms to achieve its purpose. Both the purpose and the values are considered to be clear, concise and achievable. The group's strategy is considered, agreed and evaluated annually, prior to the approval of the annual budget. Implementation is monitored at the board and executive meetings quarterly.

Coast of the Atlantic Ocean, Namibia

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.

Role of the board (continued)

Read more about the purpose, strategy and values from page 9.

The board also ensures that procedures and practices are in place that protect the group's assets and reputation. Further responsibilities of the board include the establishment, review and monitoring of strategic objectives, approval of major acquisitions, disposals and capital expenditure and overseeing the group's systems of internal control, governance and risk management.

A schedule of matters reserved for the board's decision 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.

Board leadership and composition

The board provides leadership and vision to the group in a way that enhances shareholder value and delivers long-term sustainable development and growth.

The board strives to balance the need to operate within regulatory and business practice requirements while at the same time promoting sustainable, innovative products and operations.

There is a clear division of responsibilities at the head of the group to ensure a balance of power and authority, such that no one individual has unfettered powers of decision-making. Based on this principle, the roles of the chairman and managing director do not vest in the same person.

Chairman and lead director

Koos Brandt served the board as non-executive chairman until 30 June 2017. As from 1 July 2017 the board is chaired by Johan Swanepoel, with Koos Brandt continuing as non-executive director. Neither is considered to be an independent non-executive director. The directors are of the view that their experience, leadership skills and intimate knowledge of the business and the economy equip them best to best lead the board and the group.

The board is of the opinion that the governance structures and processes in place provide adequate challenge, review and balance, and mitigate against undue influence. Board decisions are robustly deliberated and consensus driven.

The board has appointed Frans du Toit as lead independent director.

Board composition

The composition, skills and competence of the board are considered adequate to lead the Capricorn Group.

The company 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 requires a minimum of five directors. Currently, eleven members constitute the board at group level, with one executive director and seven independent non-executive directors.

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

Read more about the board members in their profiles from page 64.

Board practices

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

Board committees

The board annually approves the meeting programme. There are at least four board meetings per year. The board as a whole remains responsible for the operations of the group, but to assist in discharging its responsibilities, it delegates certain functions to committees established by the board.

CAPRICORN GROUP BOARD

Executive committee	Audit, risk and compliance committee (BARC)	HR committee	Remuneration committee	Nominations committee	Investment committee	Sustainability and ethics committee	IT committee

All committees are properly constituted, chaired by a non-executive director and act within agreed, written terms of reference that meet best practice standards and have been authorised by the board.

The key committees are:

Board executive committee

The purpose of the committee is to co-ordinate and guide the execution of the group strategy as approved by the board and help align, co-ordinate and facilitate the management of the company's business in a proficient, timeous, quick, agile and proactive manner in order to achieve sustainable profitable growth and performance. The committee is responsible for the following key matters:
- support of managing director
- governance and business ethics
- oversight and monitoring of business activities
- making recommendations on board appointments to the group board nominations committee
- considering and, where appropriate, approving any significant outsourcing or appointment of key advisors or other third parties
- diligently executing and performing all duties, tasks and responsibilities delegated to the committee by the board
- considering instances of significant litigation by or against the group
- considering significant regulatory matters and reports by regulators of the group

Board audit, risk and compliance committee (BARC)

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
- combined assurance
- review of the finance function
- internal audit and internal control
- risk management, including risk appetite and IT risk, as referred by the IT committee
- compliance function
- external audit
- non-trading losses
- asset and liability committee (ALCO)

The group CFO, group head of risk, head of internal audit and the external auditor attend all BARC meetings and they have unfettered access to the BARC chairman and the board.

Group board HR committee

The committee is responsible for the following key matters:
- personnel policies
- remuneration framework
- appointment, benefits and remuneration of management below executive level
- remuneration and benefits of non-management
- retirement fund scheme
- medical aid and group life benefits
- performance management
- employment equity
- environmental health and safety

Group board remuneration committee

The committee is responsible for the following key matters:
- remuneration policy
- remuneration and fees for services as directors
- talent management at executive level
- remuneration of executive positions
- incentive schemes

Read more about the activities of the committee in the remuneration report on page 70.

Group board nominations committee

The committee is responsible for the following key matters:
- director nominations and related matters
- director performance
- director succession planning

Group board investment committee

The committee is responsible for the following key matters:
- investment evaluations, approvals and recommendations of all prospective investments and disinvestments above a certain value
- monitoring of investments
- measure and oversee equity investment portfolio
- review investment strategies

Group board sustainability and ethics committee

The committee is responsible for the following key matters:
- group sustainability strategy and philosophy, good corporate citizenship and ethics
- 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

Group board IT committee

The committee is chaired by Prof André Watkins, an independent external IT specialist.

The committee is responsible for the following key matters:
- group IT strategy
- group IT policy
- operational policy guidelines
- group IT reference architecture
- group application portfolio
- group IT organisational and governance structures
- IT risk management
- strategic projects
- significant outsourcing
- IT capital spend
- adequacy of IT resources

Attendance at meetings

The attendance at meetings during the financial year was as follows:

Director	Category	Board of directors	Board executive committee	Board audit, risk and compliance committee	Group board HR committee	Group board remuneration committee	Group board nominations committee	Group board investment committee	Group board sustainability and ethics committee	Group board IT committee
	Meetings held:	7	7	6	5	5	4	6	2	4
J C Brandt	Non-executive chairman	Chair 7	Chair 6			5	Chair 3			
J J Swanepoel	Non-executive chairman from 1 July 2017	7	7	6		5	4	Chair 4		4
K B Black	Independent non-executive	7			Chair 5		4			
F J du Toit	Lead independent non-executive	7		6		Chair 5	4			
D G Fourie	Independent non-executive	7		Chair 6	5	5	2	6		
M J Prinsloo	Managing director	7	7		5			6	2	4
D J Reyneke	Independent non-executive from 19 May 2017	1		1						
E M Schimming-Chase	Independent non-executive	5							1	
G Nakazibwe-Sekandi	Independent non-executive	5							Chair 2	3
J M Shaetonhodi	Non-executive	7								
M K Shikongo	Independent non-executive	6								

The board, the BARC and the board HR committee have conducted an appraisal of their respective performances by means of a self-evaluation questionnaire. This resulted in improvement actions, where appropriate. The results of the committee self-evaluations were reported to the board.

Board members are required to observe the requirements of section 242 of the Companies Act dealing with disclosures of interests and, where appropriate, board members should recuse themselves from discussions or decisions on matters of potential conflict, unless resolved otherwise by the chairman or by the remaining members of the board.

Board appointments

Procedures for appointments to the board are formal and transparent.

Nominations for appointment as members of the board are recommended by the group board nominations committee (Nomco). Nomco is chaired by the board chairman. Frans du Toit, the lead independent non-executive director is a member, and all members are non-executive.

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 retire and 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 business and in the group's environment and markets. This includes changes and trends in the economic, political, social and legal landscape. 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.

Board of Directors

Jacobus Christiaan Brandt (74)

BA LLB
Outgoing non-executive chairman
(Non-executive director as from 1 July 2017)

Koos Brandt was appointed as chairman of the board of directors of Bank Windhoek on 1 April 1982. Koos is a founding member of Bank Windhoek. He has been chairman of Capricorn Group since its inception in 1996 until 30 June 2017. He studied law at the University of Stellenbosch and 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 numerous companies in the CIH group, Namibia Strategic Investments, and Infocare Health Services. In 2013 he was appointed to the Presidential Economic Advisory Council of Namibia.

He was appointed to the Capricorn Group board in 1996.

Johan Swanepoel (57)

BCom (Hons) (Accounting); CA(SA); CA(Nam)
Non-executive vice-chairman
(Non-executive chairman as from 1 July 2017)

Johan Swanepoel 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 the group managing director of CIH. Johan completed his BCom (Accounting) degree in 1979 at the Rand Afrikaans University (RAU) and obtained his BCom (Hons) degree in 1981. After joining Coopers & Lybrand (now PricewaterhouseCoopers) in 1980, he qualified as a chartered accountant in 1982. He was elected managing partner of the firm in Namibia in 1989. He is a director of a number of companies in the CIH group, Namibia Strategic Investments, Kuiseb Investments and Infocare Health Services.

He was appointed to the Capricorn Group board in 1999 and to the BARC in 2007. As from 1 July he chairs the boards of directors of Capricorn Group and Bank Windhoek.

Kephas Brian Black (62)

Executive Management Diploma (Stellenbosch)
Independent non-executive

Brian Black is the proprietor of the Airport Lodge, which he personally planned and developed. He is the chairman of the group board human resources committee. He is the managing director of Cernol Chemicals. Current and previous positions include national chairman of the Hospitality Association of Namibia, board member of the Namibian Employers Federation, founding board member of the Namibian Tourism Board, general manager: marketing and sales: TransNamib Holding Ltd, executive director of Swachem Namibia (Pty) Ltd and the Swaco group of companies and member of the Labour Advisory Council. He is the chairman of AFS Group Namibia and the Namibia Manufacturers Association.

He was appointed to the Capricorn Group board in 2007.

Francois Jacobus du Toit (72)

BCom (Hons); CA(SA)
Lead independent non-executive

Frans du Toit retired as group executive director: finance of the Absa group in 2005. Before his banking career, he was a partner of a leading audit firm for 14 years. Frans was appointed as a director of Bank Windhoek in 1998 and is the chairman of the group's board remuneration committee. He also serves as a member of the Capricorn Group board nominations committee.

He was appointed to the Capricorn Group board and a number of other Capricorn Group board committees.

Daniel Gerhardus Fourie (59)

BCom (Hons); CA(SA); CA(Nam)
Independent non-executive

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 has completed a postgraduate management development programme of the Business School of the University of Cape Town and an advanced leadership programme at the Gordon Institute of Business Science and is a member of the ICAN Council. Gerhard was appointed as an independent non-executive director of Bank Windhoek and Capricorn Group in October 2015 and is the chairman of the group's and the bank's board risk and compliance committee.

He was appointed to the Capricorn Group board and a number of other Capricorn Group board committees.

Marthinus Johannes Prinsloo (46)

BCompt (Hons); CA(SA)
Managing director

Thinus Prinsloo joined CIH 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 head of integration. Prior to that, he worked as a business strategy consultant at IBM and PricewaterhouseCoopers (PwC). Thinus completed his BCompt (Hons) degree at the University of Free State in 1992 and during his career at PwC qualified as a chartered accountant in 1995, working in the audit division in South Africa and in the corporate finance (financial services) division in the UK. He returned to South Africa in 2002 when he joined the business consulting division of PwC. Thinus completed a number of executive programmes over the years at GIBS, the University of Cape Town Business School, and most recently the Oxford Advanced Management and Leadership Programme at Saïd Business School.

He was appointed to the board of Capricorn Group in 2013.

Board of Directors (continued)

Dirk Johannes Reyneke (55)

BCom; BCompt (Hons); CA(SA); Diploma in Advanced Banking
Independent non-executive

Dirk Reyneke qualified as a chartered accountant in 1988 with Ernst & Young (now EY) where he was a partner for 14 years, including Partner – Gauteng Financial Services Group (FSG) and Partner – Gauteng head of banking. In 2006 he joined Absa Retail Bank as CFO. Other positions at Absa include head of finance and operations and chief operating officer. Since 2012 he has been employed by Telkom, where he is now head of integration tasked with the integration of Telkom Enterprise and Business Connexion.

He was appointed to the board of Capricorn Group and BARC with effect from 19 May 2017.

Esi Malaika Schimming-Chase (47)

LLB (Hons)
Independent non-executive

Esi Schimming-Chase obtained her LLB (Hons) degree from Coventry University, Coventry, England in 1992. She was admitted as a barrister at law in England in 1994. From 1995 to 1997 she was a legal officer in the office of the Attorney General of Namibia. She held the position of senior manager: investment promotions at the Offshore Development Company (Pty) Ltd, engaged mainly in all activities involving the promotion of foreign investment in Export Processing Zones in Namibia. She completed her articles at Koep & Partners Attorneys at Law and was admitted as a legal practitioner of the High Court of Namibia, and from March 2003 to date she has been a practising advocate of the High Court of Namibia and member of the Society of Advocates of Namibia. She has lectured part time and acts as a judge of the High Court of Namibia from time to time. Since recently she is a Senior Counsel (SC).

She was appointed to the board of Capricorn Group in 2013.

John Mueneni Shaetonhodi (68)

BAdmin; MA; MBA (Maastricht)
Non-executive

John Shaetonhodi is a founding director and current chairman of Nam-mic, the broad-based black economic empowerment partner of Capricorn Group. John's career included political responsibilities, being a Member of Parliament for seven years, Deputy Minister of Labour, President of the Mineworkers Union of Namibia from its formation in 1986 until 1995, President and Member of the National Executive Committee of the National Union of Namibian Workers as well as a number of executive and non-executive directorships. He was the CEO of TransNamib Holdings Ltd from 2001 to 2007.

He was appointed to the board of Capricorn Group in 2006.

Matheus Kristof Shikongo (67)

Diploma in Personnel Management– Marketing
Independent non-executive

Matheus Shikongo was elected Mayor of the City of Windhoek in 2000. During his working career, he has served on a number of boards which include, among others, the National Theatre of Namibia, the Namibia Broadcasting Corporation, Metropolitan Life Namibia, the Commercial Bank of Namibia, the Namibia Airports Company and Namibia Power Corporation. In addition to serving on the board of directors of a number of companies in the CIH group, he is a director of Oryx Properties, August 26 Logistics and a number of other companies.

He was appointed to the board of Capricorn Group in 2001.

Gida Nakazibwe-Sekandi (64)

LLB; PRISA
Independent non-executive

Gida Nakazibwe-Sekandi joined the banking industry in August 2000 when she was appointed as executive officer: marketing and corporate communication at Bank Windhoek. She has since then served in various other senior executive positions in the group. In 2008 she was appointed as executive director of Capricorn Investment Holdings Ltd. In this role she was instrumental in the establishment of the group's professional shared services function and provided oversight for its service delivery strategy, co-ordination of multifunctional and intragroup strategic projects as well as professional development.

She is a director of numerous companies in the CIH group and Allegrow Fund, Hangala Group, Nam-mic Financial Services Holdings, MSR, W@W, Tungeni Serenity and Welwitschia Insurance Brokers.

Gida holds a Bachelor of Law (LLB 1976) degree from the University of Makerere, Uganda and a Diploma in Legal Practice awarded by the Legal Development Centre in Kampala, Uganda. She is an accredited public relations practitioner by the Public Relations Institute of South Africa (PRISA) and founder member of PRISA Namibia. Prior to joining the banking industry, she served as head of corporate affairs and communication at Rössing Uranium Ltd, a member of the Rio Tinto Group.

She was appointed to the board of Capricorn Group in 2004.

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 such matters, or on other business-related matters, directly from independent professional advisors should they so wish. This is in addition to the advice provided by independent advisors 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 engage on and discuss any matters regarding which they require additional information or understanding.

Systems of internal control

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

The systems include a documented organisational structure and division of responsibility, established policies and procedures, which 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 an effective internal control system can provide only reasonable, and not absolute, assurance with respect to financial statement preparation and the safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances.

The group assesses its internal control systems on a continuous basis in relation to effective internal control over financial reporting. Based on its assessment, the group believes that, as at 30 June 2017, its systems of internal control over financial reporting and over safeguarding of assets against unauthorised acquisitions, use or disposition were adequate.

Combined assurance

The group gains assurance regarding the internal risk and control environment from various assurance stakeholders, the key ones being business management, risk and compliance functions, and an independent internal audit.

Risk management and compliance

The group has a structured, group-wide risk management and compliance governance structure, approved framework, and established process that is designed and monitored by the independent risk management function.

The group head of risk is responsible for the implementation and effectiveness of the risk management processes. The head of risk has unrestricted access to the BARC chairman.

Read more about risk management and compliance from page 76.

The directors representing Capricorn Group on the boards of entities over which Capricorn Group does not have control, will seek assurance that significant risks pertaining to these entities are managed and any system of internal control is operating effectively.

Internal audit

The group internal audit function (GIA) is an independent and objective review and consulting function created to add value and improve systems of internal control across the group. GIA assists the group to achieve its objectives by systematically reviewing current processes, using a risk-based approach to establish the adequacy of design and effectiveness and appropriateness of controls, the risk management process, the management control process and the governance process.

GIA reports to the BARC and has unrestricted access to the BARC chairman.

With the support and oversight of BARC, GIA has been led by an acting head until 1 June 2017, when a new head: GIA commenced duties. EY act as co-source partner to GIA, supporting the head, providing technical support and resource capability, and reporting to BARC.

External auditor

The BARC approved the external auditor's terms of engagement, scope of work, as well as the 2017 annual audit strategy and agreed on the applicable levels of materiality. Based on written reports submitted, the committee reviewed, with the external auditor, the findings of their work and confirmed that all significant matters had been satisfactorily resolved.

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

Non-audit services received and fees paid by the group during the financial year are as follows:

Technical training	N$685,080
Advisory support in respect of reward and incentive structures	N$375,000
Placement documents for notes issued	N$150,900
Attending committee meetings	N$91,174
Other	N$263,221

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 as adopted by the group, and their audit opinion is included in the consolidated annual financial statements on page 99.

Code of ethics and conduct

As part of its corporate governance practice and to encourage an environment where loyalty, integrity and trust prevail, all directors and employees are required to abide by the group's code of ethics.

The code includes the ethics programme. The ethical standards of the company have been maintained throughout the year. Any contraventions of the code of ethics and conduct are acted upon in accordance with clearly communicated principles. The results of the ethics assessment undertaken during the year were incorporated into the ethics risk and control framework.

Dealing in shares is governed by a policy that sets out practices including approval requirements, disclosure principles and closed period rules.

Stakeholder engagement

The group actively engages with key stakeholders such as shareholders, regulators, customers and employees.

Read more about stakeholder engagement from page 38.

07 REMUNERATION REPORT

Introduction

The remuneration report sets out the Capricorn Group remuneration philosophy and policy (the policy) and its implementation during the 2017 financial year.

We continue to ensure that our remuneration practices and policies adhere to global best practice and align executive interest strongly to those of our shareholders.

PricewaterhouseCoopers annually reviews and advises Capricorn Group on remuneration. Particular attention was paid to the setting of the performance conditions for the long-term incentives and, consistent with the previous year, we have taken the decision to disclose the performance conditions in this report. We are confident that the targets which we have set for our performance conditions will stretch management, requiring strong company performance to unlock rewards for participants.

Consistent with previous years, we strive for appropriate transparency of our executive remuneration policies and practices and again present a two-part report. The two-part report contains our forward-looking remuneration policy in the first section and the actual implementation of our policy for the year under review in the second section. This allows shareholders to observe the manner in which our stated policies translate into actual outcomes for senior management and executives.

Governance of remuneration

Remuneration is governed by the board remuneration committee (Remco). Executive directors attend committee meetings by invitation, but are requested to recuse themselves when matters are discussed that concern them. Ms A Coertzen acts as secretary to the committee. During the year under review, the committee received advice from PricewaterhouseCoopers South Africa as independent advisors.

The committee confirms that it has discharged the functions and complied with its terms of reference for the year ended 30 June 2017.

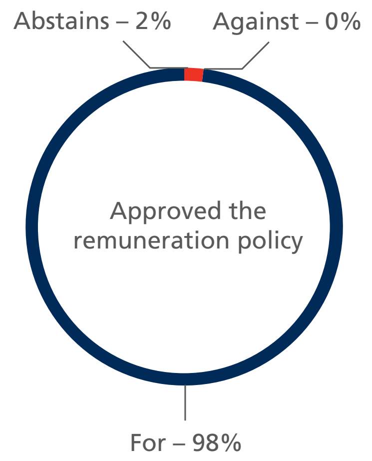
The key activities and recommendations of the committee with regard to remuneration during 2017 included the:

- benchmarking of executive directors' and executive management's total reward
- benchmarking of non-executive directors' 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
- approval of short- and long-term incentive allocations to management

Non-binding advisory vote

At the annual general meeting (AGM) on 1 November 2016, shareholders had the opportunity to cast a non-binding advisory vote on the remuneration policy and the remuneration of the non-executive directors for the financial year ending 30 June 2017.

The voting results were:



From the voting results, it is clear that there is full support for the policy. Accordingly, there were no changes made to the remuneration policy. The actual implementation of the remuneration policy for the year under review is reflected in the second section, allowing shareholders to observe the manner in which 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 on the remuneration policy contained in part 1 of this report at the forthcoming AGM.

Part one: remuneration philosophy and 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 human resources and remuneration committees take appropriate market benchmarks into account, while ensuring sufficient emphasis is placed on pay for performance. This approach helps to attract, engage, retain and motivate key employees while ensuring their behaviour remains consistent with Capricorn Group's values. The group's guiding principles for managing remuneration are as follows:

- Total rewards mindset – Reward is viewed in a holistic manner comprising 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 are evident.
- Manager discretion – Management discretion is central to Capricorn Group's remuneration philosophy and is based on the requirement that reward must always be based on merit.
- Variable pay component – The variable pay component of 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 clear differentiation between performers and non-performers. 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 against 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 2016 increase cycle to address any potential gaps between gender and race, as well as the complexity of work. However, we will be doing more work on these issues going forward.

Elements of pay

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

Short-term incentives (STI)

The group has a short-term incentive plan which aligns with best market practice within the industry and operates in the same manner for all employees within 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 company 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 short-term incentive is then calculated based on individual performance and job grade, informed by the total pool. Where an employee's performance is assessed to be unacceptable, that employee will not qualify for any STI payment during the year.

The remuneration committee approves the individual performance scores for the executive management team.

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

Entities acquired during a financial year are gradually phased in to ensure alignment, but not disruption.

	Element	Detail
Fixed remuneration and benefits	Basic salary	The fixed element of remuneration is referred to as basic salary.
	Benefits	Benefits include membership of a pension fund and medical aid, to which contributions are made by both the employee and the company, and may also include mortgage bond interest subsidies as well as housing, car, entertainment or other allowances, depending on the job level of the employee. Company contributions are calculated as part of the employee's costs to company.
Variable remuneration	Short-term incentive plan (STI)	The group operates a bonus pool short-term incentive 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 more fully described in the STI section.
	Long-term incentives (LTI)	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 company 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.

Long-term incentives (LTI)

Share appreciation rights (SAR) plan

Terms	Detail
Purpose	To attract, retain and reward selected employees who are able to contribute to the trade of the group and to stimulate the personal involvement of these employees, encouraging their continued service. The SAR serves as a leveraged incentive to employees to promote and align the interests of employees with the shareholders of the company.
Operation	Participants receive conditional SAR which vest after three years, subject to the satisfaction of the performance condition, and continued employment of the participant. After vesting, the SAR 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, the conditional share plan (CSP) and 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 the awards is: achievement of budgeted cumulative profit after tax (PAT) over the performance period.

Conditional share plan (CSP)

Terms	Detail
Purpose	To attract, retain and reward selected employees who are able to 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 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 and the CSP and 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 overall company limit at any one time.
Performance conditions	The performance condition applicable to the performance-based awards is: achievement of budgeted cumulative PAT over the performance period.

Non-executive directors' fees

The non-executive directors 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.

Non-executive director fees reflect the directors' roles and membership of the board and its committees.

The resolution relating to non-executive director fees for the 2018 financial year can be found on page 230 of the notice of the AGM.

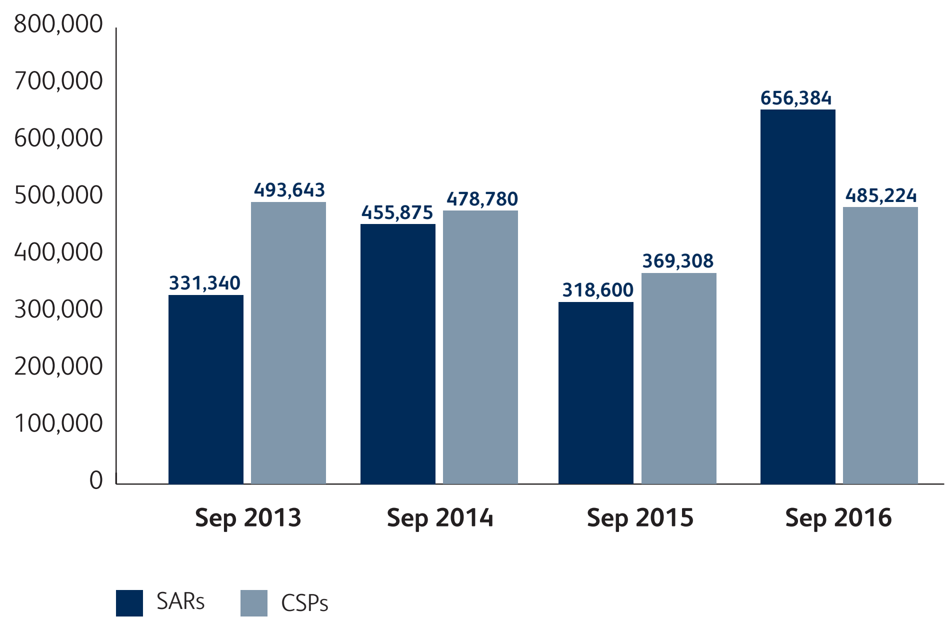
Part two: remuneration paid

Increases to guaranteed pay (group remuneration policy)

Annual remuneration reviews are effective on 1 September 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, considering the:

- employee's performance review
- formal salary survey conducted to determine local and regional pay practices
- adjustment of salary scales to reflect any market movement

Number of SARs and CSPs awarded



During the year under review, an average increase of 8% was awarded to the executive directors and 8.3% to executive managers.

Number of SARs and conditional shares awarded

The number of SARs and conditional shares awarded to executive directors is disclosed in note 40.13.3 of the 30 June 2017 consolidated annual financial statements.

The remuneration committee awarded the first tranche in September 2013, and annually thereafter in September each year as follows:

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 2016 was 1,474,423 (September 2015: 1,041,268).

Dividends paid under the share benefit scheme

Staff members employed on job levels ES1-3, RB1-3, GL1-3 and SP1 are beneficiaries of the Capricorn Group Employee Share Benefit Trust that has distributed dividends earned on the shares held by the trust every year since establishment of the trust in 2005.

Dividends to the value of N$2,249,100 were paid to 520 employees in September 2016 (September 2015: N$1,812,571 to 591 employees).

Directors' remuneration

Executive directors' remuneration

The analysis of the remuneration of executive directors for the 2017 year is disclosed in note 40.13.3 of the 30 June 2017 consolidated annual financial statements.

Non-executive director fees

The analysis of the non-executive director fees for the 2017 year is disclosed in note 40.13.2 of the 30 June 2017 consolidated annual financial statements.

Frans du Toit
Chairman of the group board remuneration committee

08 RISK AND COMPLIANCE REPORT

Board oversight

The Capricorn Group board is ultimately accountable for the adequacy of the Group Risk Internal Control and Assurance Framework (GRICAF).

The board discharges its responsibilities for risk management through the group governance structure (refer to the governance report on page 68) and specifically the board audit and board risk and compliance committees. The board is assured of the adequacy of the GRICAF through the second and third lines of defence consisting of the risk, management assurance services, compliance and internal audit functions. In addition to the internal functions the board draws on the perspectives of external auditors and regulators who conduct regular reviews of the operating entities in the group. The board is satisfied that the GRICAF was adequate during the period under review.

Risk capacity, appetite and tolerance (RCAT)

The RCAT is used to set the group's capacity, appetite and tolerance thresholds for risk. The RCAT collectively refers to qualitative and quantitative statements. The board sets qualitative risk appetite as well as quantitative risk capacity and appetite. The executive, through principal risk owners (PROs), sets quantitative tolerance limits for each of the principal risks. Quantitative measures include thresholds which, if breached, trigger a change in status that attracts a higher level of monitoring and action. The capacity and appetite statements are regularly reviewed and reported to the risk committee, executive management team and the audit committee.

Risk overview

Capricorn Group is a regional provider of financial services and it assumes risk exposure by the very nature of its business and its operations. The group identified 14 main risk categories which apply across the various operating units in all three jurisdictions (Namibia, Botswana and Zambia). The main risk categories have been defined as principal risks that are each managed according to a risk management framework. At a strategic level, risk management objectives are to:

- optimise efficiency through effective use of 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 risks are understood and managed proactively within acceptable risk capacity, appetite and tolerance

The group maintains an effective risk, internal control and assurance framework based on the standard risk practices of COSO* and Basel II, as set out below.

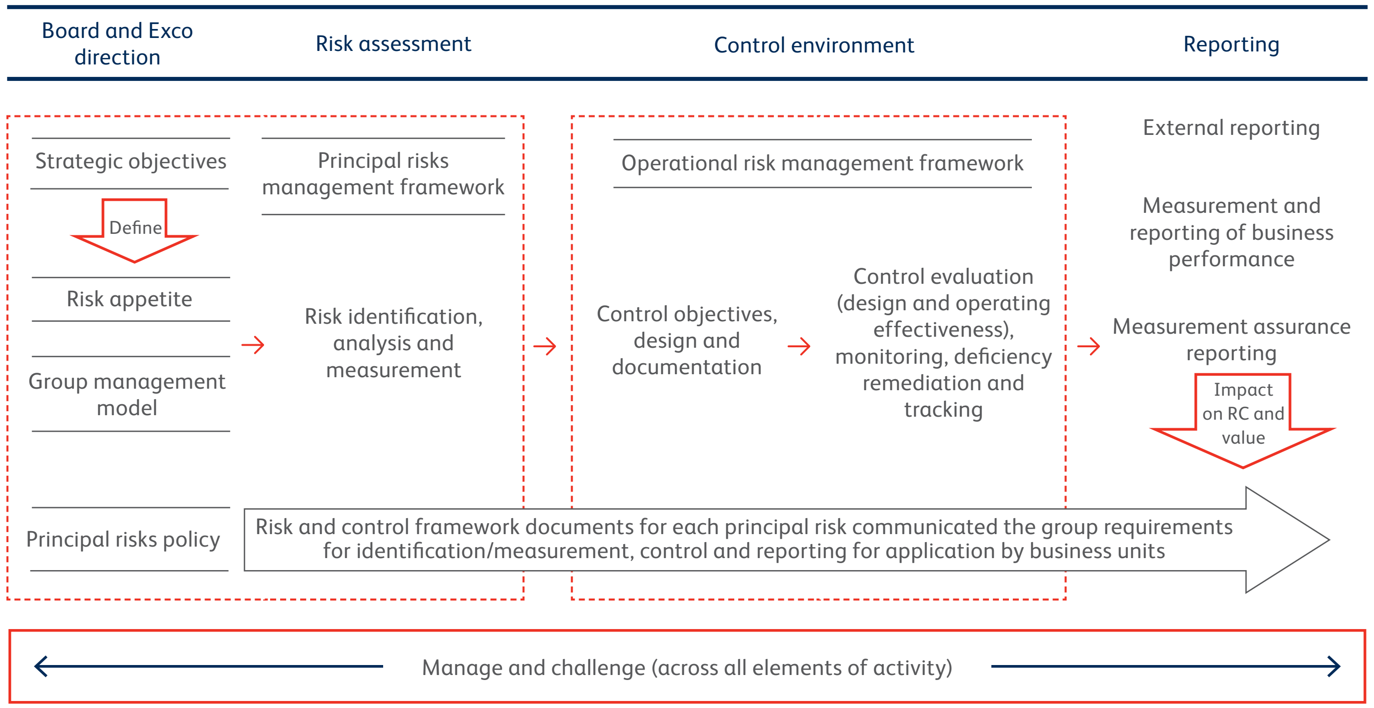
Basel II

Banking regulation in all three jurisdictions is based on Basel II. The Bank of Namibia has embarked on the implementation of Basel III and the first draft regulation was issued in October 2016. During the period, the group maintained Basel II standards for market, credit and operational risk.

The group provided comments to the draft BID-5A (revised capital requirements with regards to credit, market and operational risks), as well as the quantitative impact study with regards to the revised BID-5A. The revised BID-6 (revised liquidity requirements, included in the Net Stable Funding Ratio and the Liquidity Coverage Ratio) is awaited.

The group is pro-actively managing the risk in order to start adapting to comply with Basel III ratios in advance.

High-level organisation and flow of GRICAF:



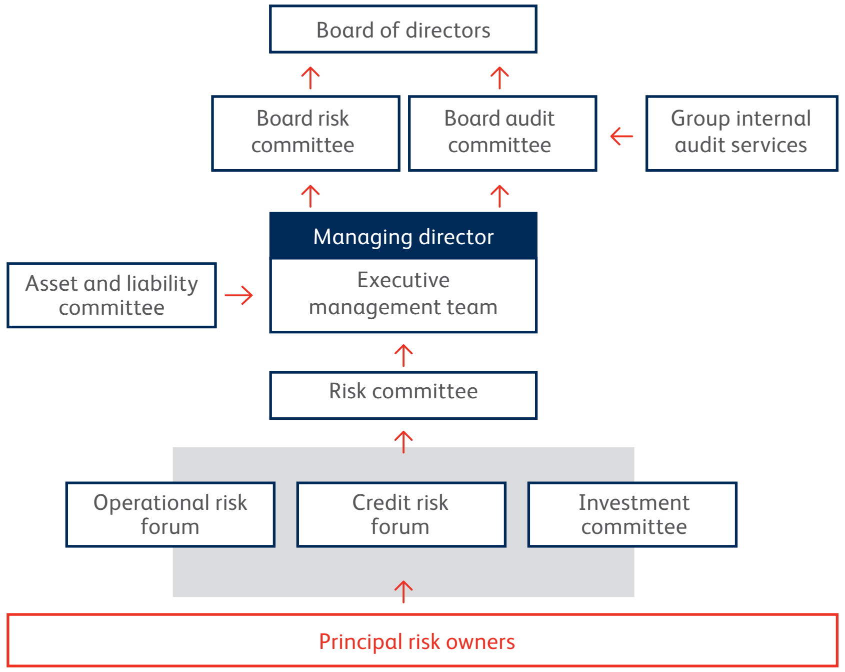
Regulatory capital (RC)

**The Committee of Sponsoring Organisations of the Treadway Commission (COSO)*

The group has adopted standard practices for each of the principal risks listed below. The uniqueness of each operating entity is considered when the GRICAF is applied. The standard practices of the GRICAF provide a common language and understanding of risk which allows the group to standardise and aggregate risk reporting which enables effective oversight by governance structures. The board is ultimately accountable for effective risk management and responsibility is delegated to executive management to ensure that appropriate risk and control frameworks are designed and implemented. Each principal risk is assigned to an appropriate executive officer who is responsible to ensure that an effective risk and control framework is designed, implemented and maintained for the principal risk. 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 various entities. The central risk functions are responsible for the overall infrastructure of the GRICAF and provide oversight and assurance in its second line of defence role. The principal risks are:

- credit
- market
- liquidity
- operational
- capital
- strategy
- compliance
- customers (a newly added principal risk for Bank Windhoek)
- technology
- people
- finance and tax
- legal
- financial crime
- reputational

The oversight structure of a banking subsidiary is reflected below (refer to the governance structure for entity-specific information):



Overview of 2017

- The group remained well capitalised with a total risk-based capital adequacy ratio of 16.8% remaining within the prescribed capital limits for banks.
- The region's money market was under pressure for a large part of the year due to slowdown in government spending in construction and infrastructure. There are signs that the market is slowly recovering and that government spending has not returned to normal, causing government entities and corporates to operate under constrained conditions.
- Although interest rates remained stable over the past year, market liquidity was under pressure and additional sources of funding were utilised. As a result of this, the cost of funding increased, putting margins under pressure. Volatility in the foreign currency markets placed additional focus on market risk, which remained within appetite and tolerance thresholds.
- The macroeconomic deterioration continued in the past 12 months. The effects of the deterioration are still affecting the customers of the bank.
- Prime interest rates remained stable over the past 12 months, with inflation slowing marginally. The USD/NAD exchange rate improved over the last financial year. The private sector slowed due to various reasons, including policy changes, drought and slower growth in the region.
- Credit risk remains well managed and within acceptable limits although the impact of the deterioration in the economic environment in the Southern African region has contributed to a slight increase in arrears and non-performing loans (NPLs) of the group. The outlook of decreasing interest rates places additional pressure on the market risk and will be monitored and managed during the next financial year.
- Total net operational risk and financial crime losses increased marginally to N$13.4 million from N$12.2 million in 2016, with financial crime losses accounting for 41.5% of the total. The majority of the movement is due to the acquisition of CIHB and CCHZ during the year under review.
- The group remains compliant with laws and regulations with no financial penalties imposed on the group or any of its subsidiaries.

Risk addressed	Priorities for 2017	Progress made in 2017	Priorities for 2018
Credit risk	Managing arrears proactively and ensuring sustainable credit extension. Implement necessary Basel III measures for managing credit risk.	The arrears were managed in the group, with additional measures implemented to proactively manage arrears at branch-level. The customers remain under strain due to the pressurised economic environment. Despite this, the non-performing loans were kept within applicable thresholds and below industry norms. A roadmap was designed in order for the group to comply to the Basel III requirements.	Maintaining tight control over non-performing loans and recoveries in the current economic environment. Successfully implement the IFRS 9 parallel run throughout the group Implement Basel III according to the BoN implementation timelines.
Market risk	Devising methodology and implementation of Funds Transfer Pricing (FTP), to better manage the pricing of bank's assets and liabilities in line with market pricing and conditions.	The FTP methodology was finalised in the year and the implementation is underway.	Review FTP and make adjustments/ enhancements as necessary before fully embedding the new FTP methodology into the bank and determine the requirements for group-wide implementation. Align treasury and asset and liability management standards across the group and improve forward-looking capabilities.
Liquidity risk	Increase stable deposits as part of Basel III requirements.	The initial analysis is under way and the group is in the process of ensuring stable deposits in the light of Basel III and the additional focus on stable deposits.	Ensure compliance with phased in Basel III capital requirements. Adapt improved liquidity stress testing and scenario analysis. Ensure diversification of funding sources.
Operational risk	Further enhancement of proactive fraud detection by introducing an electronic proactive fraud monitoring capability. Increased focus on the recovery of fraud losses and regular fraud, operational risk and compliance awareness campaigns.	Implemented a solution on common-point-of-compromise identification assistance to eliminate card fraud. The implementation of the additional fraud rules developed to enhance proactive card fraud screening capabilities on the existing Postilion Realtime/Post Card system is in progress.	Implementation of the governance, risk and compliance initiative to establish more dynamic and forward-looking practices including technology. Embedding a compliance risk monitoring capability.
Capital risk	Focus on additional capital requirements for Basel III implementation.	The capital requirements were determined and the bank is awaiting further guidance from the BoN on the implementation of Basel III in Namibia.	Implementation of the minimum requirements according to Basel III. The potential capital impact of IFRS 9 will be investigated.
Investment risk	Refine fund matrices and further enhancements on process that confirms compliance on credit ratings.	The matrix for each mandate was reviewed and refined. The compliance process for adhering to the matrices was reviewed and improved. Compliance is checked by the CAM credit and compliance committee monthly.	The matrix review process will be incorporated in an overall review and affirmation of our investment philosophy and investment decision-making process.

Capital risk

Capital risk is the risk that the group is unable to meet its capital requirements and 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.

Capital management principles

- Comply with the capital requirements set by the regulators in the respective jurisdictions of the banking operations where the entities within the group operate.
- Efficient capital management delivering on the group's return on capital targets to ensure shareholders' expectations are met while making adequate capital available to support business growth.
- Capricorn Group's long-term strategy is to build sustainable stakeholder value which requires ensuring that group capital levels are sufficient for achieving this.

Capital management for Capricorn Group

Capital management for the Namibian 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 the risk-weighted assets at a minimum of 7%, referred to as Tier 1 risk-based capital ratio
- the total regulatory capital to risk-weighted assets at a minimum of 10%, referred to as total risk- based capital ratio

The group's regulatory (qualifying) 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 requires each bank or banking group to maintain capital adequacy ratios. Capricorn Group has continuously complied with the following capital ratios:

- Tier 1 capital to total assets
- Tier 1 capital to risk-weighted assets
- total regulatory capital to risk-weighted assets

The Bank of Namibia has adopted the standardised approach to Basel II, with risk-weighted assets being measured for three risk types, namely operational risk, market risk and credit risk.

The adequacy of the capital for the risks that the group faces is tested annually by means of a detailed internal capital adequacy assessment process (ICAAP) in which the expected and unexpected loss areas across all the principal risks are determined using various modelling and scenario techniques.

Read more about the composition of regulatory capital and the ratios of the group for the year ended 30 June 2017 in the summary in note 3.6 of the consolidated annual financial statements from pages 176 to 178.

Priorities for the next year

- Basel III implementation: Basel III will likely increase the capital buffer that should be held for the group. Current calculations show that the capital currently held by the group is sufficient for Basel III requirements.
- Focus will also be placed on the potential capital impact of IFRS 9.

Market risk

Market risk is the exposure to adverse changes in the price or value of an instrument traded or held as an investment. Where market risk is a factor, and especially in volatile markets, the practice of marking to market on a regular basis is an important discipline. From the above the following detailed risks 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
- basis risk: the change in price basis or spread between two rates or indices changes, e.g. the price of an asset does not change in the same manner as a change in a liability, or the spread between the funding and lending rate changes

The effect of sensitivity of the book on interest rate moves can be seen in note 3.3.3 (ii) of the consolidated annual financial statements.

Market risks were actively monitored with emphasis on the impact of a stable interest rate cycle. The management of market risk will remain a key focus area given the probability of further decreasing interest rates, increased volatility in foreign currency markets and deterioration of the macroeconomic environment.

Market risk management process

Market risk is managed by closely monitoring the limits as set out in the market risk framework. 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.

Priorities for the next year

- Focus will be placed on the enhancement of reporting and implementation of the necessary systems to enable this
- Investing and implementing an FTP methodology to aid the management of market risk, assist compliance with Basel III and creating correct behaviour in branches

Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its 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.

Against the backdrop of continuing challenges in the macroeconomic environment, the overall liquidity position remained well managed and met regulatory guidelines. Regardless of this, the region's money market liquidity position was under strain in the past financial year.

Low interest rates have incentivised borrowing and unincentivised savings over the past few years. This trend is likely to be reversed when interest rates increase. With the outlook of decreasing and stable interest rates, a creative view will have to be taken on savings products.

Liquidity risk management process

Liquidity risk is monitored and managed by means of a set of liquidity indicators and triggers that serve as early warning signs for effectively managing liquidity. The overall liquidity position is monitored and managed in conjunction with the funding action plan to ensure sound liquidity in the group.

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

Priorities for the next year

- Ensure compliance with Basel III capital requirements
- Improve on liquidity stress testing to aid in the understanding of liquidity stress and to serve as early warning indicators
- Focus on diversification of funding sources

Credit risk

Credit risk is expressed as the risk that a borrower or counterparty will fail to meet an obligation when it falls due, and is inherent to the group's business activities. The realisation of credit risk can cause a considerable loss in revenue as well as a decline in the total asset value when assets are categorised as non-performing.

Gross advances grew by 25.8% to N$33.7 billion compared to N$26.8 billion recorded the previous financial year. NPLs as a % of gross loans and advances increased from 1.32% to 2.22%. The increase in gross advances, specific provisions and the NPL ratio was due to the acquisition of CIHB and CCHZ during the year under review. On a normalised basis, gross advances increased by 7.0% to N$28.7 billion and NPLs as a % of gross advances increased slightly from 1.32% to 1.44%. The NPL ratio for the group is within industry norms.

Impairments decreased by 4.6% to N$58.0 million (2016: N$60.8 million).

	Capricorn Group consolidated June comparison			
	Year-on-year Δ	2017	2016	2015
Specific provisions (N$'000)	29.5%	191,412	147,829	128,174
Impairments (N$'000)	(4.6%)	57,998	60,779	58,305

Credit risk management process

Credit risk is managed by monitoring the quality and concentration risk of the overall portfolio on an ongoing basis. Models and stress testing are used to enhance the understanding of the field and improve the management of the risks. Increased focus will be placed on the implementation of the ESMS system and the use thereof in the loan application process to ensure responsible sustainable lending.

Priorities for the next year

- Focus will be placed on the implementation of processes required for the calculation of the impairments for IFRS 9
- Managing arrears and non-performing loans in a pressurised macroeconomic environment

Operational risk

Operational risk is the risk of the group suffering financial losses directly or indirectly due to failed internal processes or systems, human error or from external events. This includes the following non-financial principal risks:

- Compliance risk – The risk of failure to comply with applicable rules and regulations, and in so doing, exposing the group to penalties and reputational damage. Penalties received or due for non-compliance are an example of this risk.
- Operations risk – The risk of failure to deliver the intended outcome with regard to customers, products and services, facilities, data, processes, business continuity, physical cash management, payment management and change execution and delivery. Data entry, maintenance or loading errors that result in data quality issues are an example of this risk.
- Customer risk – The risk that customers' needs in terms of products and services offered are not met. Poor customer service is an example of this risk.
- Technology risk – The risk that the strategic technology investment is not aligned to the group's vision or business strategy, or catastrophic failure of technology to deliver secure IT services which provide critical business services. System break-downs or systems being offline are an example of this risk.
- People risk – The risk of failure to achieve the group's business objectives through problems which may arise from people-related issues. Misuse of confidential information is an example of this risk.
- Finance and tax risk – The risk of failure to monitor and report on statutory financial requirements in line with the group's requirements. The restatement of the annual financial statements is an example of this risk.
- Legal risk – The risk of exposure due to a failure to conduct business in accordance with laws or contractual obligations. Planned and potential litigation is an example of this risk.
- Financial crime risk – The risk of fraud or dishonesty, misconduct or misuse of information relating to a financial market, handling the proceeds of crime or the financing of 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. Phishing attacks are an example of this risk.
- Reputational risk – This is mainly a consequence of the realisation of other risks and is the risk of failure to understand, identify or manage events that impact negatively on the group's reputation. Loss of customers and revenue due to negative publicity is an example of this risk.

	Capricorn Group consolidated June comparison			
	Year-on-year Δ	2017	2016	2015
Total losses as a % of gross income	27.5%	0.51%	0.40%	0.42%
Total operational risk losses (N$'000)	10.3%	13,410	12,160	10,300

The increase in the operational risk losses is mainly due to the acquisition of CIHB and CCHZ during the year under review.

Operational risk management framework

The group has adopted the standardised approach to operational risk management under Basel II as the foundation for its operational risk management framework. This is an appropriate approach for the group because it is prescribed by regulation for banks in all three jurisdictions and it is easily adapted for use in non-banking entities. Operational risk is managed through the operational risk management framework. Within the framework qualitative and quantitative tools are applied to identify and assess operational risks, as well as managing the mitigation of identified control weaknesses. The prime responsibility for the management of operational risk rests with the management of business units where the risk arises.

The operational risk management framework establishes the operational infrastructure that enables PROs to collect, interpret and act on risk information, thereby discharging their responsibilities in terms of the GRICAF. The components of the operational risk management framework are:

Risk and control self-assessments (RCSAs)

As part of the systems of control developed for every principal risk, a number of key internal controls are identified and documented. The aim of the RCSA process is for management to assess the design and operation of these controls to determine if they are functioning effectively or not and to perform semi-annual risk attestations. For an internal control to be effective, evidence must exist that supports this conclusion.

Key risk indicators (KRIs)

KRIs are quantitative measurements specifically used for the following:

- measurement of risk exposure (via the RCAT statement and thresholds)
- assessing the effectiveness of internal controls

Risk incident and loss event reporting

Losses and risk incidents are included in monthly risk reports through the collection of information from business units. The group has built up an internal database of risk incidents and losses stretching over more than eight years. The data is used for trend analysis, risk modelling and capital adequacy assessment.

Risk issue remediation and closure process

The process consists of recording, tracking and reporting on the group's performance in terms of resolving risk issues raised by risk service providers such as internal and external audit, management assurance services and regulators.

Financial crime

The group makes use of a full time forensic department that includes a team of qualified forensic specialists to monitor, investigate and report on financial crime.

Compliance risk management

As a leading financial services group, the group faces complex challenges to ensure that its activities comply with local legislation, regulations and supervisory requirements and the relevant international standards and requirements.

The compliance function identifies, assesses, advises, monitors and reports on the compliance risk of the group and its subsidiaries, as well as legal risk in terms of the potential impact of changes in laws and regulations. The management of compliance risk forms part of the GRICAF.

The compliance function consists of general compliance, compliance monitoring and money laundering compliance and the methodology followed by the compliance function has been developed and benchmarked against the standards prescribed by the Southern African Compliance Institute.

Key activities undertaken by general compliance

The key activities undertaken by general compliance to support the directors, executive officers, management and employees in discharging the relevant compliance responsibilities include the following:

- Compliance risk management framework – The framework sets out the minimum requirements for the management and control of compliance risk at different levels within the group.
- Compliance risk identification, assessment and prioritisation – Compliance risks, once assessed, are consolidated into a compliance risk profile. Given that the group is a dynamic corporate entity and that the regulatory landscape is evolving and becoming increasingly stringent, the regulatory risk profile is reviewed and updated at least annually or as and when new regulatory requirements are introduced, to ensure any possible risk of non-compliance with applicable laws, regulations and supervisory requirements is addressed.
- Compliance risk management plans (CRMPs) – The CRMPs serve as a management tool, outlining the compliance risks that the business units or support functions are exposed to and controls that are implemented to manage and mitigate those risks. These plans have been developed and are updated on an annual basis or as and when compliance risk changes or when new regulation or legislation is introduced.
- Compliance risk monitoring – Monitoring of compliance risk is only conducted for CRMPs implemented for high-risk legislation. During the financial year there were no financial penalties, or public reprimands imposed on the group or any of its subsidiaries.
- Compliance risk reporting – Compliance reports are submitted to governance committees attended by directors, executive officers and management. Compliance awareness is also an important component of compliance risk reporting.

Key activities undertaken by money laundering compliance

The key activities undertaken by money laundering compliance are to support the directors, executive officers, management and employees in discharging their responsibilities in respect of the risk of money laundering and terrorist financing and include the following:

- Governance and oversight – Money laundering compliance sets policies and provides guidance and training relating to anti-money laundering and anti-terrorist financing regulatory requirements.
- Regulatory or policy breaches – Money laundering compliance reports any breaches to the various governance forums and, if required, to the regulators.
- Automated money laundering prevention solution – The group's automated money laundering prevention solution provides a mechanism to efficiently counter money laundering risks and events.
- Sanctions screening – The group has key controls and procedures in place to conduct sanctions screening and minimum screening standards are maintained by the head of money laundering compliance.
- Training – The group has developed and maintains ongoing training programmes for employees on money laundering, combating of terrorist financing activities and sanctions laws.

Factors that influenced operational risk

The frequency and sophistication of cyber-related fraud were addressed with the introduction of EMV-compliant chip cards, improved proactive fraud monitoring and increased fraud awareness.

Human error and non-compliance with policies and procedures were addressed with increased compliance awareness.

Priorities for the next year

- The existing operational risk management infrastructure will be enhanced to support the group's strategy. The group strategy and the anticipated future operating environment direct the evolution of the internal risk and control frameworks. A key focus area is the implementation of the group-wide dynamic risk management initiative which will enhance and strengthen the group's risk management culture, processes and systems to adapt to the changing operating environment and to ensure the safe and responsible execution of the group's strategy.
- New procedures for enhanced risk assessment of new products or material changes to existing products will be embedded.
- There will be continued focus on preventative and proactive fraud risk management. This includes internal and external fraud awareness.
- A compliance risk monitoring capability will be established to report effectively on the results of compliance risk monitoring with the aim of ensuring the quick and effective resolution of regulatory issues.
- An ethics component will be incorporated into the compliance risk management framework.
- An external health check will be conducted on the money laundering compliance structure and processes.
- The integration and interaction between the various enterprise risk management capabilities will increase to ensure a comprehensive overall risk capability.

Investment risk

Investment risk can be described as risk of losses relative to the expected return of an investment. Investment risk for the group mainly lies with CAM.

Overview for 2017

The period under review were characterised by the following features:

- a continued, albeit subdued, global economic recovery. Most developed economies' growth rates have lifted over the period to around 2%. Low unemployment and expectations of strengthening inflation have prompted the US Fed to hike interest rates, albeit gradually.
- shifting emphasis by the US Fed, as well as other central banks, has led to uncertainty about the outlook for monetary policy. At times, tighter policy is expected sooner. That is until the next inflation number comes out lower than expected; then the prospect of tighter policy is pushed out again.
- The global recovery did not prevent Namibia and South Africa from sliding into recession. Domestic factors dominated the economic scene, so much so that the landscape could only be described as one of deficits: growth deficits, fiscal deficits, balance of payments deficits, employment deficits, leadership deficits and most important of all, confidence deficits. These have, among others, found their expression in threats to the investment grade ratings of both countries – in Namibia's case non-investment grade was avoided; not so in South Africa.
- In Namibia's case, a sudden deterioration in the fiscal position led to a sharp tightening in fiscal policy. Severe cutbacks in spending were necessitated at a time when the strength of economic activity was already weakening. Credit growth, vehicle sales and activity in the property market were all severely curtailed. This proved to be a very tough operating environment.
- Rand strength: Since the end of June 2016 to the end of June 2017, the rand has appreciated by about 11% vs the dollar and is now at levels last seen in mid-2015.
- Inflation is drifting down. Inflation in Namibia started the period at 6.7% (RSA 6.3%), then rose to peak at 8.2% (6.8%) before drifting off to reach 6.1% (5.4%) at June 2017.

2017 commitments	Progress in 2017	Priorities for 2018
The fund matrices will be further reviewed and refined. The credit and compliance committee will sign off on newly drafted and improved matrices (the fund matrix contains all the regulatory and mandate compliance requirements for each fund).	The matrix for each mandate was reviewed and refined. The compliance process for adhering to the matrices was reviewed and improved. Compliance is checked by the CAM credit and compliance committee on a monthly basis.	The matrix review process will be incorporated in an overall review and affirmation of our investment philosophy and investment decision-making process.
Liquidity risk is managed by an internal credit rating process. Continued compliance with the limits imposed by the credit rating process will be ensured. These limits together with dealer limits and day-to-day processes will be incorporated into a company-wide internal business process.	The credit rating process was reviewed, expanded and affirmed. Each security included in the funds is subject to this credit rating as well as overall limits, such as counterparty limits. There were no instances of default, nor any liquidity stress.	The credit rating process will be incorporated in an overall review and affirmation of our investment philosophy and investment decision-making process.
Risk measures will be incorporated into the fund matrix for each fund, e.g. trading errors and counterparty limits.	Risk measures were selected and defined for the funds, as well as for the portfolio management process, such as the qualifications of the team members.	Risk measures will be reviewed and refined and incorporated in an overall review and affirmation of our investment philosophy and decision-making process.

The Okavango Delta, Botswana

As a financial services group, Capricorn Group recognises that business decisions have the potential to impact stakeholders including local communities and the environment. It believes that balancing non-financial factors such as environmental and social issues with financial priorities is fundamental to responsible and sustainable business practice and a core part of the group's sustainability philosophy and strategy.

09 BOARD SUSTAINABILITY AND ETHICS COMMITTEE (BSEC) REPORT

The BSEC was established in May 2016 as a board committee with a mandate to assist the board in ensuring that Capricorn Group remains a good corporate citizen through the implementation of a sustainability and ethics strategy and reporting framework.

The committee's terms of reference include, inter alia:

- recommending to the board policies and guidelines for matters relating to the group's sustainability strategy and philosophy, good corporate citizenship and ethics issues
- reviewing reports on the policies and performance of the group
- monitoring any relevant legislation, other legal requirements or prevailing codes of best practice regarding
  - social and economic development
  - good corporate citizenship
  - environment, health and public safety
  - consumer relationships
  - compliance with consumer protection laws
  - compliance with human rights conventions
- reporting to the board on a quarterly basis, and to shareholders on an annual basis
- recommending to the board for adoption substantive national and international regulatory and technical developments
- encouraging participation, co-operation and consultation on environment, social and ethics matters
- escalating matters to the group board audit, risk and compliance committee on material issues regarding sustainability and ethics risk

Our sustainability focus and approach

Sustainability philosophy

Credibility is key to value creation. We believe that we are part of a bigger, interconnected global system. Our approach to being a responsible local, regional and global citizen is built into the DNA of all our businesses in Namibia, Botswana and Zambia. We aim to be open, transparent and accountable in our reporting.

Sustainability focus

Key sustainability challenges that Capricorn Group may potentially face in future include climate change, poverty, health issues and resource shortages i.e. water, energy and food. In addressing these global and local issues we intend to use all our business lines, including banking, investment and asset management and microfinance, as well as property finance to address the key sustainability challenges.

Sustainability approach

Our sustainability strategy is based on addressing sustainability in a holistic way, including environmental, social and economic issues. Our approach incorporates these steps:

Read more about the composition of the committee on page 62 and refer to pages 64, 65, 66 and 67 for profiles of its members. The committee met twice during the year, with attendance set out on page 62.

Sustainability programme and reporting to the BSEC

The group's sustainability programme consists of six domains that each represent a certain perspective on the topic of sustainability. The six domains are driven by and monitored through key performance indicators (KPIs) that were selected for their relevance and importance to the group. The KPIs are reported to the committee.

The six domains of our sustainability programme are:

1. **Environmental and social management system (ESMS)**
   The ESMS is used by Bank Windhoek to assess environmental and social risks as input to the credit process.
2. **Material matters**
   The material matters represent a strategic perspective of risks and opportunities. These matters were identified through a strategic management process at board level and help Capricorn Group to foresee and address material risks to the strategy of the group. Each of the matters is addressed through a number of actions.
3. **Internal environmental sustainability**
   This domain is driven by the desire to implement sound environmental practices as part of The Capricorn Way. The main drive behind this perspective is to shape a connected and "aware" culture and to demonstrate a commitment to the environment (earth) while ensuring that the group is proactive in its response to changes in the availability of natural resources.
4. **Corporate social investment (CSI)**
   In the case of Capricorn Group, CSI includes a broad range of social projects specific to the social needs of Namibia that will enable socio-economic development in the country. Among others, the project concentrates on financial literacy.
5. **United Nations Global Compact (UNCG)**
   The compact provides a global platform for collaboration to achieve the sustainable development goals (SDGs). Through the group's UNGC membership, which provides access to various resources, Capricorn Group is able to make meaningful contributions to regional and global initiatives that promote the achievement of the SDGs.
6. **Global Reporting Initiative (GRI)**
   GRI is an international standards organisation that helps businesses to understand and report their impact on sustainability issues. The GRI disclosures form an integral part of the various domains by providing KPIs to monitor and regulate development in each stream. By selecting applicable and appropriate KPIs the group is guided to promote aspects that are known to be of significance for sustainability and of importance to the group's stakeholders.

Each domain has a unique rationale and objectives. The desired outcomes for each domain are achieved through the identification of KPIs and the setting of achievable targets. Long-term objectives are achieved through incremental short-term targets. The process of setting and achieving targets is the means of achieving greater levels of maturity over time. KPIs are identified from the following key performance areas:

- labour
- economic
- environment
- customer
- social
- procurement
- compliance
- credit

Milestones for 2017

Although the board committee is still in an early development phase, it has made progress in defining its role compared to that of other board committees, in considering the optimal skills mix for its membership, and was actively involved in the board conversation on sustainability and ethics throughout the year.

The following milestones were achieved:

Functional integration for sustainability

The process of integration of the group's strategy, risk management, finance and stakeholder engagement has commenced as a key enabler to inform an understanding of what the material matters are that affect the group's sustainability. Material matters were identified for the group and key sustainability performance indicators were measured.

The implementation of the sustainability project for Namibia was concluded as all deliverables are now being managed under existing operational governance. In this regard, Bank Windhoek has embedded its ESMS as part of its loan application and assessment process. Bank Gaborone embarked on its first phase of sustainability measurement and has identified material matters and key sustainability performance indicators, with Cavmont Bank set to follow during the 2018 financial year.

United Nations Global Compact commitment

Capricorn Group became a signatory to the UNGC on 28 November 2016. The group has committed to embed the ten principles in its strategies and operations throughout the region and in support of other similar efforts by governments and strategic partners.

Capricorn Group code of ethics and conduct policy reviewed

The Capricorn Group code of ethics and conduct policy was reviewed and updated to be aligned to The Capricorn Way. Through the policy, the group committed itself to ethical standards in its day-to-day business activities. The group expects its business partners to support the sustainability and ethics initiatives, to develop and implement similar policies, specifically the guiding principles, and to act accordingly.

The group's code of ethics and conduct policy is aspirational in that it sets standards that the respective boards of directors and all the employees of Capricorn Group and its subsidiaries are expected to adopt and uphold.

Due to the close relationship that exists between the ethics of employees and the manner in which employees conduct themselves, the group seeks to describe both the ethical values and the conduct it expects from its employees in this policy. Ethics involves the core values of the group that serve as the moral foundation for all other rules and policies, including the rules of conduct also set out in the policy.

Read more about ethics under the material matter relating to the rising incidence of financial crime, corruption and fraud on page 49.

Progress on the Harambee Prosperity Plan

In the first year since its launch, Namibia's Harambee Prosperity Plan was challenged by unfavourable economic conditions that limited early contributions and support. Capricorn Group made a commitment to support the plan in its 2016 integrated report, and identified ways in which to support government's vision for accelerated development and the complete eradication of poverty.

New and existing initiatives give the group an opportunity to demonstrate support and act as "connectors of positive change". All the entities in the Capricorn Group are collaborating on the group's initiatives, summarised below:

Harambee Prosperity Plan Pillars	Capricorn Group response
1	Environmental and sustainability criteria have been incorporated in the ESMS to support the preservation of natural resources.
2	The group reviewed the draft Namibian National Development Plan (NDP5) and gave formal inputs and feedback to the National Planning Commission. The group does an annual self-assessment according to the requirements of the NFSC. It ensures compliance with financial services industry initiatives. Capricorn Group employees are encouraged to volunteer their knowledge, skills and time to support, among others, the One Economy Foundation project in Namibia with a specific focus on entrepreneurship and enterprise development. Youth enterprise development initiatives are supported through CSI projects such as Bank Windhoek's entrepreneurial competition for the youth, the AIESEC global youth network for leadership development, and school entrepreneurship days. Commercial ventures in Namibia entail development initiatives such as the newly launched Solo Bank account for children, the National Youth Council Credit for Youth in Business Scheme, and the Erongo Development Foundation small business loan scheme. SME training was done in partnership with several town councils in Namibia, while Business Simulation Training was done with 32 SMEs during the past year. Capricorn Group contributed to the advancement of the sophistication of financial services and increased access to financial services with the launch of products such as EasyWallet for safe and convenient money transfers.
3	Capricorn Group contributes to reducing poverty and alleviating hunger through CSI projects that support feeding initiatives. Vocational education and training is promoted through projects such as MSR (formerly known as Men-on-the-side-of-the-road) and Women-at-work. The property development subsidiary, Namib Bou, contributed to the provision of affordable housing through its low-cost housing development in Ondangwa, northern Namibia.
4	The group is exploring options to support, for example, water and energy infrastructure development projects through financing.

www

Read more about Bank Windhoek's social investment projects in the 2017 CSI report, which can be downloaded or viewed on the bank's website at www.bankwindhoek.com.na.

Stakeholder engagement priorities

A strategic stakeholder management plan was developed to assist Capricorn Group in focusing on engaging specific stakeholders on strategic themes, with the goal of understanding stakeholder needs and expectations. This understanding facilitates the mitigation and reduction of business risks and promotes the group's growth by responding to the needs and expectations in the appropriate manner.

As previously mentioned in the report, the group has identified material matters specific to the sustainability of the group, the regions it operates in and the world at large. These material matters will be tested with relevant stakeholders, as part of the group's stakeholder engagement planned initiatives, to ensure that the identified issues are a true reflection of the current environmental, social and economic landscape.

The stakeholder feedback received will be used as input into the 2017/2018 materiality identification process that will take place during the final quarter of the 2017/2018 financial year.

Reporting oversight

Members of the committee were involved in the development and approval of the Capricorn Group material matters, as set out on page 40. The committee had oversight of the non-financial key performance indicators that are linked to the material matters, and was involved in the process of reviewing and recommending the integrated report for approval to the board.

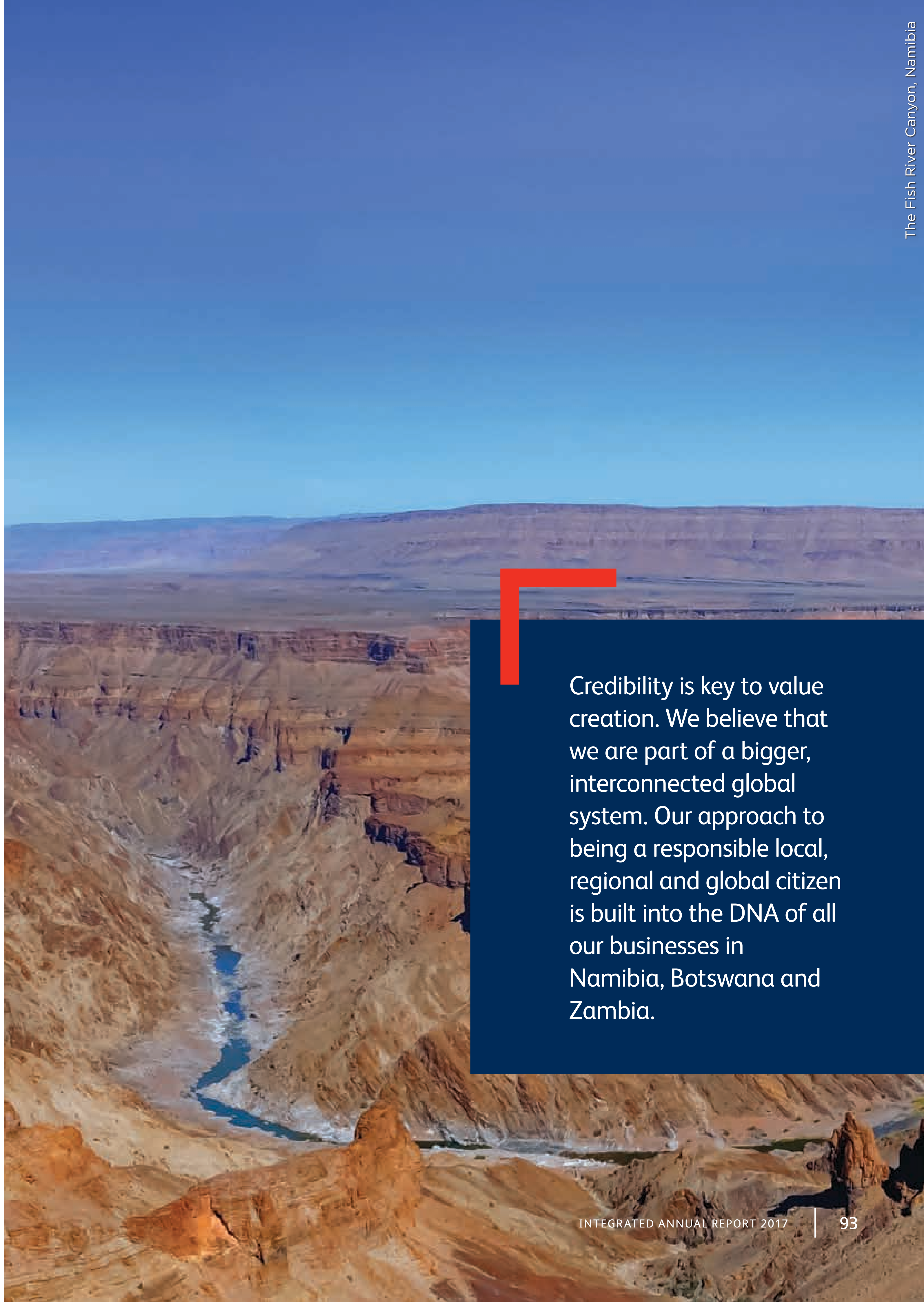
Compliance statement

The committee believes the group has maintained an acceptable balance between its financial performance and its social, economic, governance, employment and environmental responsibilities.

There were no substantive areas of non-compliance with legislation and regulation, nor were there non-adherence with codes of best practice applicable to the areas within the committee's mandate that were brought to the committee's attention for the financial year. The committee has no reason to believe that any such non-compliance or non-adherence has occurred.

Gida Nakazibwe-Sekandi

Chairperson: sustainability and ethics committee
5 September 2017



10 SCOPE, BOUNDARY AND COMPARABILITY OF INFORMATION IN THIS REPORT

This is the second Capricorn Group integrated report: a reflection on the value created by the group during the financial year of 1 July 2016 to 30 June 2017. The report is primarily aimed at providers of financial capital, but takes a holistic and stakeholder-orientated view of the social, environmental and governance aspects that are related to 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 22. 96% of net profit after tax was derived from Namibia in the financial year, with reporting priority given to Bank Windhoek as the most significant contributor to the group.

The following events should be considered when comparing information contained in this report:

- the sale of Welwitschia Insurance Brokers (WIB) to Sanlam Namibia effective 1 July 2016
- the acquisition of a controlling share in CIHB and CCHZ effective 1 January 2017

The second half of the financial year therefore incorporates the financial results of CIHB and CCHZ.

The principle of materiality guided the content of this report (read more about this on page 40), with additional information targeted at a wider audience that includes shareholders, investors, analysts and media, which is available online as part of the full suite of financial reporting elements:

Element	Availability	Reporting dates
Investor presentation	www.capricorn.com.na/investor-relations	18 August 2017
Integrated annual report	Printed report on request from investorrelations@capricorn.com.na and online at www.capricorn.com.na/investor-relations	29 September 2017
Interim results	www.capricorn.com.na/investor-relations	Annually in February
Trading updates and NSX NENS announcements	www.capricorn.com.na/investor-relations	Continuously as required

Due to the nature of the integrated report and the availability of information in different formats and channels, the board elected not to publish a summary of this report as proposed by the NamCode. For more information or feedback on this report or any of the other reports listed in this section, please contact Marc Backhaus on investorrelations@capricorn.com.na or +264 (61) 299 1281.

Reporting frameworks

Capricorn Group's financial reporting adheres to the following requirements:

- NamCode
- Namibian Companies Act, 28 of 2004
- NSX Listing Requirements
- International Financial Reporting Standards (IFRS)
- Namibia Banking Institutions Act, 2 of 1998
- Botswana Banking Act, 2 of 1995
- Zambia Banking and Financial Services Act, 7 of 2017

Capricorn Group has chosen to be guided in its reporting by the following:

- International Integrated Reporting Council (IIRC) <IR> Framework
- Global Reporting Initiative (GRI) Standards

The following informed the group's reporting approach and content:

Capricorn Group is progressing towards compliance with the International Integrated Reporting Council (IIRC) <IR> Framework	The <IR> Framework recommends principles and concepts that are focused on bringing greater cohesion and efficiency to the reporting process, and adopting "integrated thinking" as a way of breaking down internal silos and reducing duplication. It improves the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital. Its focus on value creation, and the "capitals" used by the business to create value over time, contributes towards a more financially stable global economy.
Capricorn Group considers the GRI Standards in its sustainability reporting	GRI's Sustainability Reporting Standards provide the world's most widely used standards on sustainability reporting and disclosure, thereby enabling businesses, governments, civil society and citizens to make better decisions based on information that matters.
Capricorn Group is a signatory to the United Nations Global Compact (UNGC)	The UNGC is the world's largest corporate sustainability initiative and encourages businesses to adopt sustainable and socially responsible policies, and to report on their implementation. The UNGC is a principles-based framework for businesses that sets out ten principles in the areas of human rights, labour, the environment and anti-corruption.
Capricorn Group supports Namibia's Harambee Prosperity Plan and the National Development Plan (NDP5)	The Harambee Prosperity Plan 2016/17–2019/20 is the Namibian government's Action Plan towards Prosperity for All. It is a targeted action plan to accelerate development in clearly defined priority areas, which lay the basis for attaining prosperity in Namibia. The plan does not replace, but instead complements the long-term goal of the National Development Plans (NDPs) and Vision 2030. The NDP5 aims to accelerate inclusive and equitable growth over the period 2017 to 2022. Investments will be focused on research and development, skills development, diversification of economic activities and greater value addition.
Capricorn Group measures its transformation progress against the Namibian Financial Sector Charter (NFSC)	According to the Namibia Financial Sector Strategy: 2011–2021 (NFSS), the NFSC, which is a voluntary charter, defines the sector's transformation priorities. The outcome of the proposed reform areas should result in a developed and modern financial system for Namibia. The NFSS and charter agendas are aligned with the NDPs.

11 CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

Contents

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

for the year ended 30 June 2017

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; and
- the board audit, risk and compliance committees of the group 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 105 to 228 have been prepared in accordance with the provisions of the Namibian Companies Act 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.

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 99 to 104.

The financial statements, set out on pages 105 to 228, were authorised and approved for issue by the board of directors on 5 September 2017 and are signed on their behalf:

J J Swanepoel
Chairman

M J Prinsloo
Managing director

INDEPENDENT AUDITOR'S REPORT

To the members of Capricorn Investment Group Limited

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 Investment Group Ltd (the company) and its subsidiaries (together the group) as at 30 June 2017, 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 Investment Group Limited's consolidated and separate financial statements, set out on pages 105 to 228, comprise:

- the directors' report for the year ended 30 June 2017;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of financial position as at 30 June 2017;
- 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; and
- the notes to the 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.

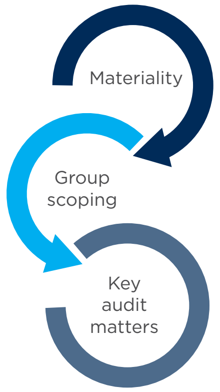
Independence

We are independent of the group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) and other independence requirements applicable to performing audits of financial statements in Namibia. We have fulfilled our other ethical responsibilities in accordance with this code and in accordance with other ethical requirements applicable to performing audits in Namibia.

INDEPENDENT AUDITOR'S REPORT (continued)

Our audit approach

Overview



Overall group materiality

- Overall group materiality: N$63,693,650, which represents 5% of profit before tax.

Group audit scope

- The group audit scope included the audit of Capricorn Investment Group Ltd and its consolidated entities, the only significant entities being Bank Windhoek Ltd, Capricorn Asset Management (Pty) Ltd, Capricorn Unit Trust Management Company Ltd and Capricorn Investment Holdings (Botswana) Ltd.

Key audit matters

- Impairment of loans and advances to customers
- Common control transactions

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.

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$63,693,650*
How we determined it	*5% of profit before tax*
Rationale for the materiality benchmark applied	*We chose profit before tax 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.*

INDEPENDENT AUDITOR'S REPORT (continued)

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 included consideration of financially significant components. The audits undertaken for group reporting purposes include the significant components of the group based on indicators such as the contribution to consolidated assets and consolidated profit before tax. In addition to Capricorn Investment Group Ltd, the significant components included Bank Windhoek Ltd, Capricorn Asset Management (Pty) Ltd, Capricorn Unit Trust Management Company Ltd and Capricorn Investment Holdings (Botswana) Ltd.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

The key audit matters described below relate to the consolidated financial statements of the group. We have determined that there are no key audit matters in respect of the separate financial statements of the company to communicate in our report.

Key audit matters

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers (refer to notes 2.4.1, 3.2.3, 4(a) and 17 to the financial statements) As at 30 June 2017, specific impairment allowances of N$191,412 thousand, and portfolio impairment allowances of N$121,224 thousand were recorded against gross loans and advances to customers of N$33,746,558 thousand. The calculation of the credit impairment for loans and advances was considered a matter of most significance to the audit as the estimate for credit impairment for loans and advances is complex, subjective and requires significant judgement by management. **Specific impairments** Management calculates specific impairment at each reporting date on an individual loan basis, for all non-performing loans and for loans where there is objective evidence of impairment. Specific impairments are calculated on an individual loan basis as the residual loan amount outstanding less expected future cash flows from collateral held by the group if applicable. Significant judgements and assumptions relating to specific impairments include: • amount of future cash flows; • timing of future cash flows; • valuation of collateral; and • recoverability of collateral.	Our audit included considering the appropriateness of accounting policies and assessing management's loan impairment methodology in order to compare these with the requirements of IAS 39 *Financial Instruments: Recognition and Measurement.* **Specific impairments** • We obtained an understanding of and tested the relevant internal controls over the specific impairment of loans and advances, which included controls over the valuation and recoverability of collateral; • We selected a sample of advances for which instalments were due and unpaid for 30 days or more and found that they have been identified by management as being individually impaired; • In addition to the sample testing we independently calculated a specific impairment provision for all specifically impaired loans and advances and compared this to management's calculation. We found management's calculation to be consistent with our expectations; • We also tested the mathematical accuracy of the impairment allowance calculations for all accounts in the legal process by re-performing the calculation tested and found the calculations to be correct.

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matter	How our audit addressed the key audit matter
Portfolio impairments Management calculates impairments for all performing loans at each reporting date on a portfolio basis. Portfolio impairment estimates impairment for loans and advances where a loss event has occurred, but is not yet identified. Management estimates portfolio impairments based on an analysis of historical data relating to probability of default, emergence period and loss given default. Significant judgements and assumptions relating to inputs in the model used to calculate the portfolio impairment include: • the emergence period – management's view of how long it takes for the objective evidence that a loan is impaired to become known to management; • the historical average of probability of default – an indication of the probability that a given loan will default; and • historic average loss given default – the percentage of the balance in default that is not expected to be recovered.	**Portfolio impairments** We assessed the appropriateness of the model used by the group with the assistance of our valuation experts by performing amongst others the following procedures: • We compared the emergence period to industry norms. We found the emergence period used to be comparable to industry norms. • For the period of time required for an account that experienced a credit event to either cure or default, we compared the average time for an incurred credit loss event to reach a conclusion to industry norms and the period from historical data. The period was found to be comparable to industry norms. • We independently re-performed the group's impairment calculation using probability of default and loss given default rates determined by management. Our calculations did not differ materially from management's calculations. We calculated independent probabilities of default and roll rates (the probability of an account which does not currently show evidence of impairment moving into arrears over the emergence period) based on industry best practice methods and historical data. We independently recalculated the loss given default rates based on industry best practice methods and historical data. Trends and changes in portfolio risk were also investigated and allowed for. Based on these independent calculations we found that the probabilities of default, roll rates and loss given defaults were within reasonable ranges. • We compared the portfolio provision expressed as a percentage of gross loans and advances to publicly available information about the industry in the region. We found the portfolio provision expressed as a percentage of loans and advances to be reasonable based on the available information about the banking industry in the region.
Common control transactions (refer to notes 2.1.2 and 44 to the financial statements) Effective 1 January 2017, the company's holding company, Capricorn Investment Holdings Ltd, disposed of some of its subsidiaries to the company. Management determined that these transactions qualified as 'common control' business combinations and the group has elected to apply predecessor accounting in the accounting for these transactions. A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the transaction. The assessment of common control was considered to be a matter of most significance to the audit, since the assessment involves management judgement and the accounting for common control business combinations differs significantly from accounting for business combinations when common control is not applicable.	Our audit included considering the appropriateness of accounting for these transactions as common control business combinations. We assessed the appropriateness of the accounting by performing amongst others the following procedures: • We obtained and inspected relevant contracts and minutes related to the common control transactions. Using our technical accounting expertise, we performed an independent assessment of management's conclusion that, based on Capricorn Investment Group Ltd's purpose and design, its relevant activities, how decisions about relevant activities are made and the fact that Capricorn Investment Holdings Ltd, the group's holding company at that stage, had existing rights that gave it the ability to direct the relevant activities of Capricorn Investment Group Ltd, the entities involved were ultimately controlled by (as per requirements of IFRS 10 *Consolidated financial statements*) Capricorn Investment Holdings Ltd, both before and after the transaction. • In respect of management's conclusion that the subsequent disposal by Capricorn Investment Holdings Ltd of a portion of its shareholding in the group was not linked to the common control transaction and that the control of the group was not transitory, we a) inspected minutes of board meetings subsequent to the date of that transaction for evidence of the board's intention; and b) inspected the share disposal contract for clauses linked to the common control transaction. Based on our procedures performed, we did not note any information or clauses which would suggest that the partial disposal of shares by Capricorn Investment Holdings Ltd was linked to the common control transaction.

INDEPENDENT AUDITOR'S REPORT (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the integrated annual report, but does not include the consolidated and 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 has 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.

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.

INDEPENDENT AUDITOR'S REPORT (continued)

- 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, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the 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.

The engagement partner on the audit resulting in this independent auditor's report is Louis van der Riet.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants (Namibia)
Registered Accountants and Auditors
Per: Louis van der Riet
Partner

Windhoek
5 September 2017

DIRECTORS' REPORT
for the year ended 30 June 2017

The directors herewith submit their report with the annual financial statements of Capricorn Investment Group Ltd (Capricorn Group or the company) for the year ended 30 June 2017.

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 and Namib Bou (Pty) Ltd, all unlisted entities, throughout the year under review. The company has 29.5 % shareholding in Sanlam Namibia Holdings (Pty) Ltd and 28 % in Santam Namibia Ltd.

During the year under review, the company acquired a 68.7 % shareholding in Capricorn Investment Holdings (Botswana) Ltd, an effective 97.9 % shareholding in Cavmont Capital Holdings Zambia Plc, a 100 % shareholding in Mukumbi Investments Ltd and a 100 % shareholding in Capricorn Capital (Pty) Ltd.

On 1 July 2016, Capricorn Group sold its 100 % shareholding in Welwitschia Insurance Brokers (Pty) Ltd.

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
- 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)
  - Investment holding company
- Capricorn Capital (Pty) Ltd (CAP)
  - Financial consultancy
- Mukumbi Investments Ltd (Mukumbi)
  - Investment holding

Subsidiaries of Bank Windhoek Ltd

- Bank Windhoek Nominees (Pty) Ltd
  - Custodian of third-party investments
- BW Finance (Pty) Ltd
  - Microlending
- Bank Windhoek Properties (Pty) Ltd
  - Property investment

DIRECTORS' REPORT (continued)

2. BUSINESS ACTIVITIES (CONTINUED)

Subsidiaries of Capricorn Investment Holdings (Botswana) Ltd

- Bank Gaborone Ltd (BG)
  - Banking
- BG Insurance Agency (Pty) Ltd (subsidiary of BG)
  - Insurance
- Penrich Employee Benefits (Pty) Ltd (PEB)
  - Dormant
- Peo Micro (Pty) Ltd (subsidiary of PEB)
  - Dormant
- Capricorn Asset Management (Botswana) (Pty) Ltd
  - Asset management

Subsidiaries of Cavmont Capital Holdings Zambia Plc

- Cavmont Bank Ltd (CB)
  - Banking

Associates

- Sanlam Namibia Holdings (Pty) Ltd
  - Long-term insurance
- Santam Namibia Ltd
  - Short-term insurance

Registered address of Capricorn Investment Group Ltd
6th floor
Capricorn Group Building
Kasino Street
Windhoek
Namibia

Company registration number: 96/300

Country of incorporation: Republic of Namibia

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 2017 amounted to:

	2017 N$'000	2016 N$'000
Profit for the year	917,621	905,048

Normal dividends of N$333.5 million (2016: N$298.1 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 110 to 228.

DIRECTORS' REPORT (continued)

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 the consolidated annual financial statements.

4.2 Preference shares

The company has 1,000,000 preference shares of 1 cent each that were authorised in 2008.

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 5% or more of the issued ordinary shares of the company at year-end:

	2017 %	2016 %
Capricorn Investment Holdings Ltd	40.7	55.0
Government Institutions Pension Fund	26.0	1.0
Nam-mic Financial Services Holdings (Pty) Ltd	9.9	9.4
Held by the public (98,861,577 number of ordinary shares (2016: 106,830,049))	19.1	21.2
Held by other non-public shareholders:	4.3	13.4
– Directors' direct and indirect shareholding other than companies mentioned above (10,396,297 ordinary shares (2016: 54,328,262))	2.0	10.7
– Capricorn Group Employee Share Ownership Trust (8,383,138 ordinary shares (2016: 9,915,109))	1.6	2.0
– Capricorn Group Employee Share Benefit Trust (3,420,000 ordinary shares (2016: 3,420,000))	0.7	0.7
4.4 Share analysis – preference shares		
Santam Namibia Ltd	100	100

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 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.

DIRECTORS' REPORT (continued)

5. SUBSIDIARIES
For details relating to the subsidiaries of Capricorn 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. HOLDING COMPANY AND ULTIMATE HOLDING COMPANY
During the year under review, Capricorn Investment Holdings Ltd (CIH) sold a 15.5% interest in Capricorn Group to the GIPF (Government Institutions Pension Fund), which resulted in CIH's shareholding in Capricorn Group declining from 56% to 40.5%. Following the transaction, CIH is no longer the holding company of Capricorn Group.

9. INSURANCE
Comprehensive insurance cover is in place as required by the Bank of Namibia BID 14 – "Determinations on minimum insurance for banking institutions".

10. 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.

11. DIRECTORS AND COMPANY SECRETARY
The Capricorn Group board composition during the year was as follows:

Non-executive		Nationality	Date appointed
J C Brandt	Chairman	Namibian	5 September 1996
J J Swanepoel	Vice-chairman	Namibian	1 July 1999
K B Black		Namibian	13 June 2007
G Nakazibwe-Sekandi		Ugandan	30 November 2004
J M Shaetonhodi		Namibian	1 November 2006
M K Shikongo		Namibian	27 November 2001
E M Schimming-Chase		Namibian	4 March 2013
F J du Toit		South African	28 March 2013
D G Fourie		Namibian	29 October 2015
D J Reyneke		South African	19 May 2017

Executive			
M J Prinsloo	Managing director	South African	4 March 2013

DIRECTORS' REPORT (continued)

11. DIRECTORS AND COMPANY SECRETARY (CONTINUED)
J C Brandt retired as board chairman on 30 June 2017, but will continue to be a non-executive director. J J Swanepoel, vice-chairman until 30 June 2017, was appointed board chairman with effect from 1 July 2017.

At the annual general meeting held on 1 November 2016, Adv. E M Schimming-Chase, Ms. G Nakazibwe-Sekandi and Mr. M K Shikongo 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.

The authorised but unissued number of ordinary and preference shares of the company subject to the provisions of sections 229 and 230 of the Namibian Companies Act and approval 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 31 October 2017, 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

12. DIRECTORS' INTERESTS
The directors' interests are reflected in the corporate governance report.

13. AUDITOR
PricewaterhouseCoopers will continue in office as auditor, until the next annual general meeting, in accordance with the Companies Act of Namibia.

14. SPECIAL RESOLUTIONS
In August 2016, the shareholders resolved to change the name of the company from Bank Windhoek Holdings Ltd to Capricorn Investment Group Ltd.

15. EVENTS SUBSEQUENT TO YEAR-END
(i) On 15 August 2017, a final dividend of 38 cents per ordinary share was declared for the year ended 30 June 2017, paid on 13 September 2017.
(ii) Bank Windhoek is in discussions with a financial institution to raise secured long-term funding of up to N$500 million. This transaction has been approved in principle by the board, subject to the finalisation of the contractual requirements.

No other matters that 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.

Consolidated and separate statements of comprehensive income

for the year ended 30 June 2017

	Notes	Group 2017 N$'000	Group 2016 N$'000	Company 2017 N$'000	Company 2016 N$'000
Interest and similar income		3,626,477	2,963,244	9,839	–
Interest and similar expenses		(1,976,980)	(1,505,102)	(16,184)	–
Net interest income	5	1,649,497	1,458,142	(6,345)	–
Impairment charges on loans and advances	6	(57,998)	(60,779)	–	–
Net interest income after loan impairment charges		1,591,499	1,397,363	(6,345)	–
Non-interest income	7	998,185	953,804	348,635	477,617
Operating income		2,589,684	2,351,167	342,290	477,617
Operating expenses	9	(1,395,005)	(1,180,153)	(83,926)	(98,237)
Operating profit		1,194,679	1,171,014	258,364	379,380
Share of joint arrangement's results after tax	21	1,094	1,405	–	–
Share of associates' results after tax	10	78,100	97,123	–	–
Profit before income tax		1,273,873	1,269,542	258,364	379,380
Income tax expense	11	(356,252)	(364,494)	–	(2,873)
Profit for the year		917,621	905,048	258,364	376,507
Other comprehensive income					
Items that may be reclassified to profit or loss					
Change in value of available-for-sale financial assets	15	15,383	33,465	–	–
Exchange differences on translation of foreign operations		(1,949)	–	–	–
Total comprehensive income for the year		931,055	938,513	258,364	376,507
Profit attributable to:					
Equity holders of the parent entity		909,429	905,048	258,364	376,507
Non-controlling interests		8,192	–	–	–
		917,621	905,048	258,364	376,507
Total comprehensive income attributable to:					
Equity holders of the parent entity (total)		923,939	938,513	258,364	376,507
Non-controlling interests (total)		7,116	–	–	–
		931,055	938,513	258,364	376,507
Earnings per ordinary share for the profit attributable to the equity holders of the parent entity during the year:					
Basic (cents)	12	180.4	181.2		
Fully diluted (cents)	12	180.0	180.8		

Consolidated and separate statements of financial position

as at 30 June 2017

	Notes	Group 2017 N$'000	Group 2016 N$'000	Company 2017 N$'000	Company 2016 N$'000
ASSETS					
Cash and balances with the central bank	13	1,543,070	1,169,170	140,643	155,057
Financial assets designated at fair value through profit or loss	14	3,968,635	2,408,196	506,007	141,547
Financial assets at amortised cost	14	299,687	–	200,411	–
Investment securities	15	149,381	133,998	–	–
Due from other banks	16	2,198,596	1,006,602	–	–
Loans and advances to customers	17	33,433,922	26,598,023	–	–
Other assets	18	450,265	340,530	32,526	15,870
Current tax asset		72,420	60,177	685	578
Investment in subsidiaries	19	–	–	1,202,003	744,991
Investment in associates	20	245,782	248,297	110,195	110,195
Interest in joint arrangements	21	6,193	5,099	–	–
Intangible assets	22	291,680	199,045	–	–
Property, plant and equipment	23	232,808	158,253	–	–
Deferred tax asset	29	28,475	6,263	–	–
Total assets		42,920,914	32,333,653	2,192,470	1,168,238
LIABILITIES					
Due to other banks	24	317,914	447,129	–	–
Other borrowings	25	1,165,064	1,164,051	–	–
Debt securities in issue	26	4,105,577	2,215,345	932,469	25,142
Deposits	27	31,571,561	23,724,128	–	–
Other liabilities	28	535,044	497,700	37,126	42,285
Current tax liability		640	1,801	–	–
Deferred tax liability	29	4,008	–	–	–
Post-employment benefits	30	10,191	9,460	–	–
Total liabilities		37,709,999	28,059,614	969,595	67,427
EQUITY					
Share capital and premium	31	684,665	512,045	727,264	532,206
Non-distributable reserves	34	248,186	213,034	–	–
Distributable reserves	35	4,123,531	3,548,960	495,611	568,605
		5,056,382	4,274,039	1,222,875	1,100,811
Non-controlling interests in equity		154,533	–	–	–
Total shareholders' equity		5,210,915	4,274,039	1,222,875	1,100,811
Total equity and liabilities		42,920,914	32,333,653	2,192,470	1,168,238

Consolidated and separate statements of changes in equity

for the year ended 30 June 2017

	Notes	Share capital and premium N$'000	Non-distributable reserves: Insurance fund reserve N$'000	Non-distributable reserves: Credit risk reserve N$'000	Distributable reserves: SBCR* N$'000	Distributable reserves: Fair value reserve N$'000	Distributable reserves: General banking reserve N$'000	Distributable reserves: FCTR** N$'000	Retained earnings N$'000	Non-controlling interests N$'000	Total equity N$'000
GROUP											
Balance at 1 July 2015		530,050	28,617	167,869	7,062	96,317	2,297,316	–	516,142	–	3,643,373
Movement in treasury shares		(18,005)	–	–	–	–	–	–	–	–	(18,005)
Total comprehensive income for the year		–	–	–	–	33,465	–	–	905,048	–	938,513
Profit for the year		–	–	–	–	–	–	–	905,048	–	905,048
Other comprehensive income		–	–	–	–	33,465	–	–	–	–	33,465
Share-based payment charges	35	–	–	–	6,228	–	–	–	–	–	6,228
Utilisation of reserve		–	(844)	–	–	–	–	–	–	–	(844)
Transfer between reserves		–	–	17,392	–	–	466,961	–	(484,353)	–	–
Dividends	36	–	–	–	–	–	–	–	(295,226)	–	(295,226)
Balance at 30 June 2016		512,045	27,773	185,261	13,290	129,782	2,764,277	–	641,611	–	4,274,039
Balance at 1 July 2016		512,045	27,773	185,261	13,290	129,782	2,764,277	–	641,611	–	4,274,039
Issue of shares	31	197,172	–	–	–	–	–	–	–	–	197,172
Movement in treasury shares		(30,674)	–	–	–	–	–	–	–	–	(30,674)
Total comprehensive income for the year		–	–	–	–	15,383	–	(873)	909,429	7,116	931,055
Profit for the year		–	–	–	–	–	–	–	909,429	8,192	917,621
Other comprehensive income		–	–	–	–	15,383	–	(873)	–	(1,076)	13,434
Share-based payment charges	35	–	–	–	9,126	–	–	–	–	–	9,126
Vesting of shares		6,122	–	–	(6,122)	–	–	–	–	–	–
Profit on sale of treasury shares		–	–	–	–	–	–	–	269	–	269
Transfer between reserves		–	22,763	12,389	–	–	590,332	–	(625,484)	–	–
Acquisition of subsidiaries		–	–	–	–	–	–	–	14,668	165,183	179,851
Change in ownership interest in subsidiary		–	–	–	–	–	–	–	(2,641)	(17,766)	(20,407)
Dividends	36	–	–	–	–	–	–	–	(329,516)	–	(329,516)
Balance at 30 June 2017		684,665	50,536	197,650	16,294	145,165	3,354,609	(873)	608,336	154,533	5,210,915

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY (continued)

	Notes	Share capital and premium N$'000	Non-distributable reserves: Insurance fund reserve N$'000	Non-distributable reserves: Credit risk reserve N$'000	Distributable reserves: SBCR* N$'000	Distributable reserves: Fair value reserve N$'000	Distributable reserves: General banking reserve N$'000	Distributable reserves: FCTR** N$'000	Retained earnings N$'000	Non-controlling interests N$'000	Total equity N$'000
COMPANY											
Balance at 1 July 2015		539,866	–	–	7,062	–	–	–	482,047	–	1,028,975
Movement in treasury shares		(7,660)	–	–	–	–	–	–	–	–	(7,660)
Share-based payment charges	35	–	–	–	1,104	–	–	–	–	–	1,104
Total comprehensive income for the year		–	–	–	–	–	–	–	376,507	–	376,507
Dividends	36	–	–	–	–	–	–	–	(298,115)	–	(298,115)
Balance at 30 June 2016		532,206	–	–	8,166	–	–	–	560,439	–	1,100,811
Balance at 1 July 2016		532,206	–	–	8,166	–	–	–	560,439	–	1,100,811
Issue of shares	31	197,172	–	–	–	–	–	–	–	–	197,172
Movement in treasury shares		(3,250)	–	–	–	–	–	–	–	–	(3,250)
Share-based payment charges	35	–	–	–	3,263	–	–	–	–	–	3,263
Vesting of shares		1,136	–	–	(1,136)	–	–	–	–	–	–
Total comprehensive income for the year		–	–	–	–	–	–	–	258,364	–	258,364
Dividends	36	–	–	–	–	–	–	–	(333,485)	–	(333,485)
Balance at 30 June 2017		727,264	–	–	10,293	–	–	–	485,318	–	1,222,875

* Share-based compensation reserve (SBCR)

** Foreign currency translation reserve (FCTR)

Consolidated and separate statements of cash flows

for the year ended 30 June 2017

		Group		Company	
	Notes	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'000
Cash flows from operating activities					
Cash receipts from customers	37.1	4,591,381	3,921,361	50,170	89,769
Cash paid to customers, suppliers and employees	37.2	(2,859,533)	(2,315,360)	(76,637)	(91,492)
Cash generated from/(utilised in) operations	37.3	1,731,848	1,606,001	(26,467)	(1,723)
(Increase)/decrease in operating assets					
Financial assets designated at fair value		322,703	293,049	(297,868)	–
Financial assets at amortised cost		(150,954)	–	–	–
Loans and advances to customers and banks		(2,568,020)	(3,066,005)	–	–
Other assets		149,260	40,969	(16,656)	4,051
Increase/(decrease) in operating liabilities					
Deposits from customers		1,994,992	1,661,322	–	–
Other liabilities		(172,935)	140,215	(13,164)	19,969
Net cash generated from/(utilised in) operations		1,306,894	675,551	(354,155)	22,297
Dividends received		101,902	92,586	277,274	383,190
Other interest received		408	1,160	8,064	4,149
Income taxes (paid)/received	37.4	(384,458)	(414,947)	578	(2,427)
Net cash generated from/(utilised in) operating activities		1,024,746	354,350	(68,239)	407,209
Cash flows from investing activities					
Additions to property, plant and equipment	23	(63,052)	(43,328)	–	–
Proceeds on sale of property, plant and equipment	37.3	1,760	969	–	–
Additions to intangible assets	22	(71,630)	(49,652)	–	–
Proceeds on sale of subsidiary	37.5	9,887	–	4,719	–
Acquisition of subsidiaries	37.6	1,062,658	–	(48,992)	–
Net cash generated from/(utilised in) investing activities		939,623	(92,011)	(44,273)	–
Cash flows from financing activities					
Treasury shares acquired		(59,390)	(39,053)	(3,250)	(7,660)
Treasury shares sold		28,985	21,048	–	–
Proceeds from other borrowings	25	–	1,170,000	–	–
Other borrowings coupon payments	25	(99,990)	(66,187)	–	–
Redemption of debt securities in issue	26	(473,766)	(436,516)	–	(127,395)
Debt securities coupon payments	26	(218,507)	(185,104)	(8,915)	(4,073)
Proceeds from the issue of debt securities		1,907,651	181,000	505,781	–
Dividends paid	36	(329,516)	(295,226)	(333,485)	(298,115)
Net cash generated from/(utilised in) financing activities		755,467	349,962	160,131	(437,243)
Net increase/(decrease) in cash and cash equivalents		2,719,836	612,301	47,619	(30,034)
Cash and cash equivalents at the beginning of the year		2,571,620	1,959,319	296,604	326,638
Cash and cash equivalents at the end of the year	39	5,291,456	2,571,620	344,223	296,604

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2017

1. BASIS OF PRESENTATION

The consolidated annual financial statements of Capricorn Group (the group or the company) for the year ended 30 June 2017 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 Namibian Companies Act and the Namibian Stock Exchange. The consolidated annual financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets 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.

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

No new standards and interpretations that were issued in the current reporting period affects amounts reported or disclosures in the current financial year.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

1. BASIS OF PRESENTATION (continued)

1.3 Standards and interpretations issued (continued)

1.3.2 Standards and interpretations issued but not yet effective that is expected to be relevant to the group

Title of standard	Nature of change	Impact	Mandatory application date/date of adoption by group
IFRS 9 – "Financial Instruments"	This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model. The IASB has amended IFRS 9 to align hedge accounting more closely with an entity's risk management. The revised standard also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS 39.	Management is in the process of developing an IFRS 9 compliant impairment framework and models. This includes collating data that can be used to estimate expected credit losses and information on the credit quality and performance of borrowers. Existing models such as the macroeconomic forecast model and client rating methodologies are also being considered to ensure efficient use of existing models. Key impairment calculation requirements and considerations include the following key decisions: • setting criteria and cut-off points for significant deterioration in credit risk; • forecasting credit losses based on borrower performance, forecasted macroeconomic variables and one-off events; and • estimating default risk, default loss rates and outstanding balances over the expected lifetime of the loan. Decisions will balance the strict interpretation of IFRS 9, industry practice and materiality. Management will subsequently explore potential modelling methodologies that will then develop into a prototype model that can be reviewed before implementation. The group has performed an assessment of the impact that IFRS 9 classification and measurement might have on the financial statements and internal management reports of the operating divisions. For all financial assets, the classification and measurement requirements of IFRS 9 were considered based on the group's business model for managing the assets and the contractual cash flow characteristics of the assets.	Must be applied for financial years commencing on or after 1 January 2018. Expected date of adoption by the group: 1 July 2018.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

1. BASIS OF PRESENTATION (continued)

1.3 Standards and interpretations issued (continued)

1.3.2 Standards and interpretations issued but not yet effective that is expected to be relevant to the group (continued)

Title of standard	Nature of change	Impact	Mandatory application date/date of adoption by group
IFRS 15 – "Revenue from Contracts with Customers"	The FASB and IASB issued their long-awaited converged standard on revenue recognition on 29 May 2014. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or services transfers to a customer. The IASB has amended IFRS 15 to clarify the guidance, but there were no major changes to the standard itself. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of these areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.	Management is currently assessing the impact of the new rules.	Mandatory for financial years commencing on or after 1 January 2018. Expected date of adoption by the group: 1 July 2018.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

1. BASIS OF PRESENTATION (continued)

1.3 Standards and interpretations issued (continued)

1.3.2 Standards and interpretations issued but not yet effective that is expected to be relevant to the group (continued)

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, lessees 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".	Management is currently assessing the impact of the new rules.	Mandatory for financial years commencing on or after 1 January 2019. Expected date of adoption by the group: 1 July 2019.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

1. BASIS OF PRESENTATION (continued)

1.3 Standards and interpretations issued (continued)

1.3.2 Standards and interpretations issued but not yet effective that is expected to be relevant to the group (continued)

Title of standard	Nature of change	Impact	Mandatory application date/date of adoption by group
IAS 7 – "Cash flow statements"	In January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.	Management assessed the amendment's impact and concluded that it will only impact the disclosure in the financial statements.	Mandatory for financial years commencing on or after 1 January 2017. Expected date of adoption by the group: 1 July 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated annual financial statements 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 re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Consolidation (continued)

2.1.1 Subsidiaries (continued)

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 re-measured 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 pre-combination carrying amounts at the highest level of consolidation prior to transfer.

Any excess or deficit of the purchase price over the pre-combination 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.

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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Consolidation (continued)

2.1.4 Disposal of subsidiaries

When the group ceases to have control, any retained interest in the entity is re-measured 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

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 re-measured. 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 Financial assets

The group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments; and
- available-for-sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial instruments (continued)

2.3.1 Financial assets (continued)

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale, are recognised on trade date – the date on which the group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers.

(i) Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading, and those designated at fair value through profit or loss at inception. The designation cannot be changed subsequently.

A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are categorised as held for trading, unless they are designated as hedges.

Financial assets are designated at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to customers or banks and debt securities in issue;
- they are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis; or
- financial instruments, such as debt securities held, containing one or more embedded derivative that significantly modify the cash flows, are designated at fair value through profit or loss.

Treasury bills, government stock, unit trust investments, money market investments, derivative financial instruments and other debt securities are classified in this category.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value are included under net gain from financial instruments designated at fair value through profit or loss in profit or loss and in the period in which they arise. Interest income and dividend income are included in “net interest income” or “other operating income”, respectively.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are carried at amortised cost using the effective interest rate method. Interest calculated using the effective interest rate method is recognised in profit or loss.

Loans and advances to customers, due from other banks, cash and balances with the central bank and other assets are classified in this category.

(iii) Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. If the group was to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method. Interest calculated using the effective interest rate method is recognised in profit or loss.

Treasury bills, government stock and preference shares, not held for trading, are classified in this category.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial instruments (continued)

2.3.1 Financial assets (continued)

(iv) Available for sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale instruments are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss.

Interest on available-for-sale securities calculated using the effective interest method is recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss in "other operating income" when the group's right to receive payments is established. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

Investment securities are classified in this category.

2.3.2 Financial liabilities

The group recognises a financial liability when it becomes a party to the contractual terms of the financial instrument. The group classifies its financial liabilities in the following categories:

- at amortised cost; and
- financial liabilities at fair value through profit or loss.

Financial liabilities are initially recognised at fair value, being its issue proceeds (fair value of consideration received) net of transaction costs incurred, for all financial liabilities not carried at fair value through profit or loss.

(i) At amortised cost

The liability is subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in profit or loss over the period of the liability using the effective interest rate method.

The dividends on preference shares are recognised in profit or loss as interest expenses on an amortised cost basis, using the effective interest rate method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds.
The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Classified in this category are amounts due to other banks, other borrowings, debt securities in issue, deposits and other liabilities.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial instruments (continued)

2.3.2 Financial liabilities (continued)

(ii) Financial liabilities at fair value through profit or loss

This category comprises two subcategories, namely:

- financial liabilities classified as held for trading; and
- financial liabilities designated by the group as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading, unless they are designated as hedges. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller. Those financial instruments are recognised in the consolidated statement of financial position as "financial liabilities held for trading".

Classified in this category are derivative financial instruments.

2.3.3 Determination of fair value

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments;
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date; and
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

2.3.4 Derecognition

The group derecognises a financial asset when:

- the contractual rights to the asset expire; or
- where there is a transfer of the contractual rights to receive the cash flows of the financial asset and substantially all of the risks and rewards related to the ownership of the financial asset are transferred; or
- the group retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and rewards associated with the asset.

Where the group retains substantially all the risks and rewards of ownership of the financial asset, the group continues to recognise the financial asset in its entirety and recognises a financial liability for the consideration received. These financial assets and the related financial liabilities may not be offset.

Where the group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the group determines whether it has retained control of the financial asset. In this case:

- if the group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer; or
- if the group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The group derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired. A substantial modification of the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new one.

A substantial modification to the terms occurs where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 % different from the discounted present value of the remaining cash flows of the original financial liability.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial instruments (continued)

2.3.5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.3.6 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques, which include discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique the variables of which include only data from observable markets. When such evidence exists, the group recognises profits on day one.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss.

The group's derivative financial instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and the derivatives are included in other assets/liabilities in the statement of financial position.

2.4 Impairment of financial assets

A financial asset is considered as impaired when there is objective evidence of impairment.

2.4.1 Financial assets carried at amortised cost

The group assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired, includes observable data that comes to the attention of the group about the following loss events:

(i) significant financial difficulty of the issuer or obligator;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii) the group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(v) the disappearance of an active market for that financial asset because of financial difficulties; or
(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Impairment of financial assets (continued)

2.4.1 Financial assets carried at amortised cost (continued)

The group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Impairment of loans and advances

Impairment losses are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to profit or loss. The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

The group employs scientific techniques to determine the specific and portfolio impairment of its loans and advances.

(i) Individually assessed loans and advances

All loans and advances are assessed on a case-by-case basis at each reporting date as to whether there is any objective evidence that a loan is impaired. Loans and advances are individually assessed for impairment when they have been flagged as being past due more than 90 days. Furthermore, the criteria used to determine that there is such objective evidence, include the loss events described above. For loans where objective evidence of impairment exists, impairment losses are determined considering the aggregate exposure to the client and the realisable value of security (or other credit mitigants) and the likelihood of successful repossession.

Due from other banks have not been impaired as these placements are made to banks that have high credit standing and, by policy, limits the amounts of credit exposure to any one financial institution. Refer to note 3.2.5.

(ii) Collectively assessed loans and advances

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated portfolio impairment. The calculation is based on the incurred but not reported (IBNR) model, which takes into account that it may take a period of time before management becomes aware of an objective evidence that a loan is impaired. Key inputs into this model are the historical average of probability of default and the historic average loss given default. The emergence period is also factored into the model, which represents management's view of how long it takes for the objective evidence to become known to management.

To the extent that the unidentified impairments are insufficient to meet the minimum regulatory portfolio impairment, such shortfall is accommodated by a transfer of the applicable amount from distributable (retained earnings) to non-distributable reserves (credit risk reserve).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Impairment of financial assets (continued)

2.4.1 Financial assets carried at amortised cost (continued)

(ii) Collectively assessed loans and advances (continued)

When a loan is uncollectable, it is written off against the loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the loan impairment in profit or loss.

For more detailed procedures followed by the group on collectively assessed loans and advances, refer to the risk and compliance report.

2.4.2 Financial assets carried at fair value

The group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

2.4.3 Renegotiated loans

Financial assets that would otherwise be past due that have been renegotiated are separately classified as neither past due nor impaired assets. Renegotiated loans are loans where, due to deterioration in the counterparty's financial condition, the group granted a concession where the original terms and conditions of the facility were amended and the counterparty is within the new terms of the loan. Loans are only classified as renegotiated if the terms of the renegotiated contract have not yet expired and remain classified as such until the terms of the renegotiated contract expire. Where the loans are reclassified as neither past due nor impaired the adherence to the new terms and conditions is closely monitored.

2.5 Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) are reclassified in the consolidated annual financial statements as pledged assets when the transferee has the right, by contract or custom, to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method.

Securities borrowed are not recognised in the consolidated annual financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible asset

2.6.1 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.

2.6.2 Computer software and development costs

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; and
- 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:

Operating software	3 years
Application software	5 – 7 years

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Property, plant and equipment

Land and buildings mainly comprise branches and offices. All property, plant and equipment are stated at historical cost less accumulated depreciation. 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 – 8.3 years
Computer equipment	3 – 5 years
Buildings	24 – 50 years

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, plant and equipment in the consolidated annual financial statements.

2.8 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.

2.9 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.

2.10 Leases

2.10.1 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.

2.10.2 A group company is the lessor

Leases of property, plant 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, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 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.

2.12 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.

2.13 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 guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history or past losses, supplemented by the judgement of management.

Any increase in the liability relating to financial guarantees is taken to profit or loss under operating expenses.

2.14 Employee benefits

2.14.1 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Employee benefits (continued)

2.14.2 Severance pay provision

In terms of the Labour Act of 2007, 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:

- is dismissed (except if due to misconduct or poor performance); or
- dies while employed.

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.

2.14.3 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.

2.14.4 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.

2.15 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 Investment 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 (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, 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.

2.16 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.

2.16.1 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Current and deferred income tax (continued)

2.16.1 Deferred income tax (continued)

The principal temporary differences arise from depreciation of property, plant 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 re-measurement 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.

2.16.2 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.

2.17 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

The group recognises revenue when the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity, and when specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2.17.1 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Revenue recognition (continued)

2.17.2 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 (for example, 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 profit or loss 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.

2.17.3 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.

2.17.4 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Share capital

2.18.1 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.

2.18.2 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.

2.19 Inventory (residential units)

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the first-in-first-out (FIFO) 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). It excludes 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.

2.20 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.

2.21 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.

2.22 Operating segments

The group considers its banking operations in Namibia and Botswana as two operating segments. Other components include property development, asset management, unit trust management and the Zambian banking operations. However, these components each contribute less than 5% 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 managing director 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 managing director 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

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; and
- risk governance processes.

The banking subsidiaries have the following subcommittees 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. Amongst 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

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; and
- discuss in detail any identified, unidentified and potential risks that are material to the group.

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; and
- 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; and
- group credit policies.

Significant risks to which the group are exposed are discussed below.

3.1 Analysis of assets and liabilities

Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies on pages 119 to 135 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 ANNUAL FINANCIAL STATEMENTS (continued)

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:

	2017						
Group	**Held for trading N$'000**	**Designated at fair value through profit/loss N$'000**	**Loans and receivables N$'000**	**Available-for-sale financial assets N$'000**	**Financial assets/ liabilities at amortised cost N$'000**	**Non-financial assets/ liabilities N$'000**	**Total N$'000**
ASSETS							
Cash and balances with the central bank	–	–	1,543,070	–	–	–	1,543,070
Financial assets designated at fair value through profit or loss	–	3,968,635	–	–	–	–	3,968,635
Financial assets at amortised cost	–	–	–	–	299,687	–	299,687
Investment securities	–	–	–	149,381	–	–	149,381
Due from other banks	–	–	2,198,596	–	–	–	2,198,596
Loans and advances to customers	–	–	33,433,922	–	–	–	33,433,922
Other assets	–	–	350,192	–	–	100,073	450,265
Current tax asset	–	–	–	–	–	72,420	72,420
Investment in associates	–	–	–	–	–	245,782	245,782
Interest in joint arrangements	–	–	–	–	–	6,193	6,193
Intangible assets	–	–	–	–	–	291,680	291,680
Property, plant and equipment	–	–	–	–	–	232,808	232,808
Deferred tax asset	–	–	–	–	–	28,475	28,475
Total assets	–	3,968,635	37,525,780	149,381	299,687	977,431	42,920,914
LIABILITIES							
Due to other banks	–	–	–	–	317,914	–	317,914
Other borrowings	–	–	–	–	1,165,064	–	1,165,064
Debt securities in issue	–	–	–	–	4,105,577	–	4,105,577
Deposits	–	–	–	–	31,571,561	–	31,571,561
Other liabilities	8,622	–	–	–	517,176	9,246	535,044
Current tax liability	–	–	–	–	–	640	640
Deferred tax liability	–	–	–	–	–	4,008	4,008
Post-employment benefits	–	–	–	–	–	10,191	10,191
Total liabilities	8,622	–	–	–	37,677,292	24,085	37,709,999

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Analysis of assets and liabilities (continued)

	2016						
Group	**Held for trading N$'000**	**Designated at fair value through profit/loss N$'000**	**Loans and receivables N$'000**	**Available-for-sale financial assets N$'000**	**Financial liabilities at amortised cost N$'000**	**Non-financial assets/ liabilities N$'000**	**Total N$'000**
ASSETS							
Cash and balances with the central bank	–	–	1,169,170	–	–	–	1,169,170
Financial assets designated at fair value through profit or loss	–	2,408,196	–	–	–	–	2,408,196
Investment securities	–	–	–	133,998	–	–	133,998
Due from other banks	–	–	1,006,602	–	–	–	1,006,602
Loans and advances to customers	–	–	26,598,023	–	–	–	26,598,023
Other assets	–	–	260,541	–	–	79,989	340,530
Current tax asset	–	–	–	–	–	60,177	60,177
Investment in associates	–	–	–	–	–	248,297	248,297
Interest in joint arrangements	–	–	–	–	–	5,099	5,099
Intangible assets	–	–	–	–	–	199,045	199,045
Property, plant and equipment	–	–	–	–	–	158,253	158,253
Deferred tax asset	–	–	–	–	–	6,263	6,263
Total assets	–	2,408,196	29,034,336	133,998	–	757,123	32,333,653
LIABILITIES							
Due to other banks	–	–	–	–	447,129	–	447,129
Other borrowings	–	–	–	–	1,164,051	–	1,164,051
Debt securities in issue	–	–	–	–	2,215,345	–	2,215,345
Deposits	–	–	–	–	23,724,128	–	23,724,128
Other liabilities	6,069	–	–	–	472,801	18,830	497,700
Current tax liability	–	–	–	–	–	1,801	1,801
Post-employment benefits	–	–	–	–	–	9,460	9,460
Total liabilities	6,069	–	–	–	28,023,454	30,091	28,059,614

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

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. Impairments are provided for losses that have been incurred at the reporting date. 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.

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).

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.
The operational credit risk measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the date of the statement of financial position (the incurred loss model) rather than expected losses (note 3.2.4).

(i) Probability of default (PD)

The probability of default is an indication of the probability that a given loan will default. Under Basel II, 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 is calculated using a historical one-year average to annualise the figures over one year.

(ii) Exposure at default (EAD)

The exposure at default under Basel II will take into account an expectation of future draw-downs until the default event has occurred by utilising a credit conversion factor. For example, for a loan this is the face value. 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. The Basel committee on banking supervision document on international convergence of capital measurement and capital standards states that the expected loss should be a one-year estimate. For this reason, and to relate the LGD to the PD one-year average, the LGD is also computed over a one-year history. The LGD should be as a percentage of the EAD as required by Basel II.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.2 Maximum exposure to credit risk before collateral held or other credit enhancements

		Maximum exposure	
Group	**Notes**	**2017 N$'000**	**2016 N$'000**
Credit risk exposures relating to on-statement of financial position assets are as follows:			
Cash and balances with the central bank	13	1,543,070	1,169,170
Financial assets designated at fair value through profit or loss	14	3,968,635	2,408,196
– Treasury bills		2,304,271	2,051,859
– Government stock		211,018	94,855
– Unit trust investments		24,103	22,565
– Money market investments		1,116,990	229,677
– Tradable instruments with banks		302,427	–
– Other debt securities		9,826	9,240
Financial assets at amortised cost	14	299,687	–
– Treasury bills		254,645	–
– Government stock		45,042	–
Due from other banks	16	2,198,596	1,006,602
Gross loans and advances to customers	17	33,746,558	26,825,310
– Overdrafts		5,402,460	4,156,406
– Term loans		7,729,446	4,977,056
– Mortgages		16,616,534	13,738,202
– Instalment finance		3,557,131	3,435,162
– Preference shares		440,987	518,484
Other assets*	18	350,192	260,541
Total exposure on statement of financial position		42,106,738	31,669,819
Credit risk exposure relating to off-statement of financial position items are as follows:			
Liabilities under guarantees	38	1,495,326	1,450,178
Letters of credit	38	100,373	634,568
Loan commitments	38	1,763,653	2,094,090
Total exposure off statement of financial position		3,359,352	4,178,836
Total credit risk exposure		45,466,090	35,848,655

* Other assets exposed to credit risk include insurance fund asset, accounts receivable, derivatives as well as clearing and settlement accounts.

The table represents a worst-case scenario of credit risk exposure to the group as at 30 June 2017 and 2016, 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 above are based on carrying amounts as reported.

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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 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 sub-limits 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; and
- 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; and
- 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; and
- 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Risk limit control and mitigation policies (continued)

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.

(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 an 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 insolvency 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 MNAs, 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. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.4 Impairment policies

The credit measurement process as described in note 3.2.1 focuses on expected credit losses, taking into account the risk of future events giving rise to losses. By contrast, impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the date of the statement of financial position based on objective evidence of impairment (see note 2.4.1). Due to the different methodologies applied, the amount of incurred credit losses provided for in the consolidated annual financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

3.2.5 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, Bank Gaborone and Cavmont Bank) 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 are further broken down as:

- background;
- needs;
- financial position;
- security;
- desirability;
- profitability; and
- recommendation – positive/negative aspects.

No internal scoring models are used except for the micro-loans book, where the Delphi score forms part of the assessment. Assessments on all other loan classes are performed on a judgemental basis.

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 45 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; and
  - 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 ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.5 Credit quality of loans and advances and other financial instruments (continued)

(i) Credit quality and management of loans and advances (continued)

The table below shows the loans and advances age analysis:

			Special mention			Non-performing	
Group	Neither past due nor impaired N$'000	Past due not impaired N$'000	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 2017							
Overdrafts	4,800,832	346,710	104,528	19,980	11,554	118,856	5,402,460
Term loans	6,988,246	196,756	179,070	25,515	79,137	260,722	7,729,446
Mortgages	15,405,703	672,523	121,105	47,962	51,570	317,671	16,616,534
Instalment finance	3,417,058	65,325	5,904	7,114	9,601	52,129	3,557,131
Preference shares	440,987	–	–	–	–	–	440,987
Total gross loans and advances	31,052,826	1,281,314	410,607	100,571	151,862	749,378	33,746,558
Specific impairment raised against unsecured amount*	–	–	(23,164)	(4,809)	(5,112)	(158,327)	(191,412)
Total loans and advances after specific impairments	31,052,826	1,281,314	387,443	95,762	146,750	591,051	33,555,146
Security held against past due not impaired and impaired loans	–	(950,112)	(324,193)	(80,310)	(132,223)	(591,051)	(2,077,889)
	31,052,826	331,202	63,250	15,452	14,527	–	31,477,257
As at 30 June 2016							
Overdrafts	3,840,326	175,236	45,285	635	20,338	74,586	4,156,406
Term loans	4,725,191	162,728	920	936	116	87,165	4,977,056
Mortgages	13,164,044	321,412	100,601	26,110	6,807	119,228	13,738,202
Instalment finance	3,301,937	42,810	12,279	1,943	1,956	74,237	3,435,162
Preference shares	518,484	–	–	–	–	–	518,484
Total gross loans and advances	25,549,982	702,186	159,085	29,624	29,217	355,216	26,825,310
Specific impairment raised against unsecured amount*	–	–	(15,805)	(3,580)	(10,022)	(118,422)	(147,829)
Total loans and advances after specific impairments	25,549,982	702,186	143,280	26,044	19,195	236,794	26,677,481
Security held against past due not impaired and impaired loans	–	(463,443)	(86,661)	(26,044)	(19,195)	(236,794)	(832,137)
	25,549,982	238,743	56,619	–	–	–	25,845,344

* The specific impairment raised against the 0 – 30 days, 31 – 60 days and 61 – 90 days categories relates to a number of clients with future possible loss indicators.

Further information of the impairment allowance for loans and advances to customers is provided in note 17.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)
3.2 Credit risk (continued)
3.2.5 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. Loans and advances outstanding for longer than 90 days are considered non-performing. As determined by the regulatory requirements, any asset which is overdue 60 days or more but less than 90 days shall be classified as special mention, at a minimum and is subject to impairment. The group follows a more conservative approach than the regulators and already classifies loans in 0 – 30 days and 31 – 60 days as special mention, where, on a case-by-case basis, indicators of a possible future loss event exist. Loans categorised as special mention accounts are performing but subject to at least the minimum impairments as per the regulatory determination.

Non-performing loans and advances to customers before taking into consideration the cash flows from collateral held is N$749.4 million (2016: N$355.2 million). The increase in non-performing loans and advances is mainly due to the acquisition of CIHB and CCHZ. The breakdown of the gross amounts of non-performing loans and advances by class, along with the value of related tangible collateral held by the group as security, is as follows:

Group	Overdrafts N$'000	Term loans N$'000	Mortgages N$'000	Instalment finance N$'000	Total N$'000
As at 30 June 2017					
Non-performing loans	118,856	260,722	317,671	52,129	749,378
Value of tangible collateral	100,047	190,432	273,671	26,901	591,051
Impairment raised against unsecured amount	18,809	70,290	44,000	25,228	158,327
Net exposure	–	–	–	–	–
As at 30 June 2016					
Non-performing loans	74,586	87,165	119,228	74,237	355,216
Value of tangible collateral	30,582	67,021	101,390	37,801	236,794
Impairment raised against unsecured amount	44,004	20,144	17,838	36,436	118,422
Net exposure	–	–	–	–	–

The value of tangible collateral disclosed above is limited to the outstanding balance, therefore any over-collateralised portion of a loan is excluded from the value of tangible collateral. Impairments are raised for under-collateralised non-performing loans, resulting in a net exposure of nil.

Refer to note 3.2.3 (a) for the range of collateral policies and practices in place.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)
3.2 Credit risk (continued)
3.2.5 Credit quality of loans and advances and other financial instruments (continued)
(iii) Non-performing loans and advances by geographical area

Geographical area	2017 N$'000	2016 N$'000
Namibia	412,616	355,216
Botswana	213,289	–
Zambia	123,473	–
	749,378	355,216

(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	2017 N$'000	2016 N$'000
Cash and balances with the central bank	1,543,070	1,169,170
Financial assets designated at fair value through profit or loss	3,968,635	2,408,196
Financial assets at amortised cost	299,687	–
Due from other banks	2,198,596	1,006,602
Other assets	350,192	260,541

No impairment has been raised against these assets.

Balances with the central bank, treasury bills and government stock (financial assets designated at fair value) 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 is 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 for example, these exposures are classified as unrated and are subject to much stricter lending criteria.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.5 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 2017					
Balances with the central bank	–	1,224,336	–	–	1,224,336
Cash balances	–	–	–	318,734	318,734
Financial assets designated at fair value through profit or loss	–	3,742,990	–	225,645	3,968,635
– Treasury bills	–	2,304,271	–	–	2,304,271
– Government stock	–	211,018	–	–	211,018
– Money market investments	–	891,374	–	225,616	1,116,990
– Tradable instruments with banks	–	302,427	–	–	302,427
– Other securities	–	33,900	–	29	33,929
Financial assets at amortised cost	–	41,621	258,066	–	299,687
– Treasury bills	–	18,861	235,784	–	254,645
– Government stock	–	22,760	22,282	–	45,042
Due from other banks	–	1,641,450	–	557,146	2,198,596
Other assets	–	–	–	350,192	350,192
Non-financial assets	977,431	–	–	–	977,431
Total assets (excluding loans and advances)	977,431	6,650,397	258,066	1,451,717	9,337,611
As at 30 June 2016					
Balances with the central bank	–	880,968	–	–	880,968
Cash balances	–	–	–	288,202	288,202
Financial assets designated at fair value through profit or loss	–	2,207,035	–	201,161	2,408,196
– Treasury bills	–	2,051,859	–	–	2,051,859
– Government stock	–	94,855	–	–	94,855
– Money market investments	–	53,372	–	176,305	229,677
– Other securities	–	6,949	–	24,856	31,805
Due from other banks	–	860,097	–	146,505	1,006,602
Other assets	–	–	–	260,541	260,541
Non-financial assets	757,123	–		–	757,123
Total assets (excluding loans and advances)	757,123	3,948,100	–	896,409	5,601,632

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.5 Credit quality of loans and advances and other financial instruments (continued)

(iv) Credit quality of financial assets other than loans and advances (continued)

Unrated exposures consist mainly of cash balances, due from other banks and money market investments, 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.

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 %

3.2.6 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 both 30 June 2017 and 30 June 2016 was nil. 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 ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.7 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 they represent statutory, risk-weighted amounts.

	Exposure N$'000	Impairment N$'000	Risk-weighted amounts N$'000	Written off N$'000
As at 30 June 2017				
Counterparties				
Sovereign and central bank	2,968,843	–	–	–
Public sector entities	426,150	–	134,143	–
Banks	948,188	–	190,006	–
Corporate	9,041,507	15	9,070,575	–
Retail	6,397,423	47,371	4,841,420	63,314
Residential mortgage properties	9,515,415	35,205	4,735,797	649
Commercial real estate	7,101,119	1,696	7,331,594	–
Other assets	4,559,278	–	3,227,401	–
Included in other assets:				
– Listed shares	149,381	–	149,381	–
	40,957,923	84,287	29,530,936	63,963
Commitments	3,312,024	–	1,382,976	–

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.7 Credit risk weighted amounts (continued)

	Exposure N$'000	Impairment N$'000	Risk-weighted amounts N$'000	Written off N$'000
As at 30 June 2016				
Counterparties				
Sovereign and central bank	2,764,084	–	–	–
Public sector entities	524,570	–	201,307	–
Banks	1,001,103	–	281,785	–
Corporate	6,406,855	32,286	6,381,162	–
Retail	6,155,536	58,797	4,613,495	33,985
Residential mortgage properties	7,620,471	8,912	3,843,592	600
Commercial real estate	6,117,731	1,548	6,126,820	–
Other assets	1,625,743	–	656,620	–
Included in other assets:				
– Listed shares	133,998	–	133,998	–
	32,216,093	101,543	22,104,781	34,585
Commitments	4,179,061	–	1,587,204	–

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:

	2017	2016
Namibia long-term local currency issuer default rating	BBB	BBB
Namibia long-term issuer default rating	BBB-	BBB-
Botswana long-term local currency issuer default rating	A-	–
Botswana long-term issuer default rating	A-	–
Zambia long-term local currency issuer default rating	B	–
Zambia long-term issuer default rating	B	–

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.8 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.

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$'000	Financial assets designated at fair value through profit or loss N$'000	Financial assets at amortised cost N$'000	Due from other banks N$'000	Loans and advances to customers N$'000	Other assets N$'000	Total N$'000
As at 30 June 2017							
Agriculture and forestry	–	–	–	–	1,889,409	–	1,889,409
Fishing	–	–	–	–	168,636	–	168,636
Mining	–	–	–	–	317,837	–	317,837
Manufacturing	–	–	–	–	609,282	–	609,282
Building and construction	–	–	–	–	1,987,024	–	1,987,024
Electricity, gas and water	–	–	–	–	97,901	–	97,901
Trade and accommodation (note 1)	–	–	–	–	11,338,881	–	11,338,881
Transport and communication	–	–	–	–	442,738	–	442,738
Finance and insurance	318,734	1,453,346	–	2,198,596	2,750,432	3,804	6,724,912
Real estate and business services	–	–	–	–	8,536,984	–	8,536,984
Government	1,224,336	2,515,289	299,687	–	35,948	–	4,075,260
Individuals	–	–	–	–	5,312,063	–	5,312,063
Other (note 2)	–	–	–	–	259,423	346,388	605,811
Impairment	–	–	–	–	(312,636)	–	(312,636)
	1,543,070	3,968,635	299,687	2,198,596	33,433,922	350,192	41,794,102

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.8 Credit concentration risk (continued)

	Cash and balances with the central bank N$'000	Financial assets designated at fair value through profit or loss N$'000	Due from other banks N$'000	Loans and advances to customers N$'000	Other assets N$'000	Total N$'000
As at 30 June 2016						
Agriculture and forestry	–	–	–	1,255,992	–	1,255,992
Fishing	–	–	–	257,483	–	257,483
Mining	–	–	–	275,942	–	275,942
Manufacturing	–	–	–	726,923	–	726,923
Building and construction	–	–	–	2,171,678	–	2,171,678
Electricity, gas and water	–	–	–	129,455	–	129,455
Trade and accommodation (note 1)	–	–	–	11,264,185	–	11,264,185
Transport and communication	–	–	–	477,928	–	477,928
Finance and insurance	288,202	261,482	1,006,602	1,326,602	229	2,883,117
Real estate and business services	–	–	–	5,007,458	–	5,007,458
Government	880,968	2,146,714	–	18,011	–	3,045,693
Individuals	–	–	–	3,876,690	–	3,876,690
Other (note 2)	–	–	–	36,963	260,312	297,275
Impairment	–	–	–	(227,287)	–	(227,287)
	1,169,170	2,408,196	1,006,602	26,598,023	260,541	31,442,532

Note 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.

Note 2: Other assets include the insurance fund asset, accounts receivable, derivatives as well as clearing and settlement accounts.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.9 Credit risk concentration by geographical area

Group	Cash and balances with the central bank N$'000	Financial assets designated at fair value through profit or loss N$'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 2017							
Namibia	1,081,041	3,080,365	238,101	28,507,718	41,621	197,232	33,146,078
Botswana	245,944	382,263	1,042,575	4,092,664	–	34,688	5,798,134
South Africa	–	506,007	32,778	–	–	71	538,856
United Kingdom	–	–	14,451	–	–	–	14,451
United States of America	–	–	601,774	–	–	–	601,774
Zambia	216,085	–	137,013	833,540	258,066	118,201	1,562,905
Other countries[1]	–	–	131,904	–	–	–	131,904
	1,543,070	3,968,635	2,198,596	33,433,922	299,687	350,192	41,794,102

Group	Cash and balances with the central bank N$'000	Financial assets designated at fair value through profit or loss N$'000	Due from other banks N$'000	Loans and advances to customers N$'000	Other assets N$'000	Total N$'000
As at 30 June 2016						
Namibia	1,169,170	2,408,196	137,911	26,598,023	260,312	30,573,612
South Africa	–	–	292,489	–	229	292,718
United Kingdom	–	–	266	–	–	266
United States of America	–	–	275,932	–	–	275,932
Zambia	–	–	44,941	–	–	44,941
Other countries[2]	–	–	255,063	–	–	255,063
	1,169,170	2,408,196	1,006,602	26,598,023	260,541	31,442,532

There are no exposures to other foreign countries that are not recorded on the statement of financial position.

[1] Other foreign currency exposures relate mainly to exposures to the European Union euro: N$99.5 million due from other banks.

[2] Other foreign currency exposures relate mainly to exposures to the Botswana pula: N$135.2 million and the European Union euro: N$115.7 million due from other banks.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.10 Financial instruments: asset and liability offsetting

In 2016, included in loans and advances to customers are financial instrument receivables amounting to N$23.5 million. These receivables matured in 2017. In the prior year, the group had a legally enforceable right to set off the recognised amounts and realised the asset and settled the liability simultaneously.

The financial asset and financial liability had thus been offset in the 2016 statement of financial position. Refer below for details of the gross financial asset and gross financial liability.

	Group 2017 N$'000	Group 2016 N$'000
Gross financial asset	–	70,060
Gross financial liability	–	(46,515)
Net financial asset included in loans and advances to customers	–	23,545

Refer to note 17 for details of loans and advances to customers.

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 ANNUAL FINANCIAL STATEMENTS (continued)

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 2017								
ASSETS								
Cash and balances with the central bank	1,062,351	193,489	31,092	9,247	244,767	23	2,101	1,543,070
Financial assets designated at fair value through profit or loss	3,080,365	–	–	–	382,263	506,007	–	3,968,635
Financial assets at amortised cost	41,621	258,066	–	–	–	–	–	299,687
Investment securities	–	–	148,518	–	–	–	863	149,381
Due from other banks	152,825	64,569	759,244	128,125	1,042,749	32,778	18,306	2,198,596
Loans and advances to customers	28,465,505	523,840	312,033	1,393	4,092,664	38,364	123	33,433,922
Other assets	200,965	118,201	–	–	30,955	71	–	350,192
Total financial assets	33,003,632	1,158,165	1,250,887	138,765	5,793,398	577,243	21,393	41,943,483
Non-financial assets	977,431	–	–	–	–	–	–	977,431
Total assets	33,981,063	1,158,165	1,250,887	138,765	5,793,398	577,243	21,393	42,920,914
LIABILITIES								
Due to other banks	102,362	31,773	149,227	–	32,976	860	716	317,914
Other borrowings	–	–	–	–	–	1,165,064	–	1,165,064
Debt securities in issue	2,654,730	–	–	–	141,928	1,308,919	–	4,105,577
Deposits	24,496,178	982,967	1,059,676	98,353	4,908,492	14,276	11,619	31,571,561
Other liabilities	299,423	53,349	–	–	164,404	8,622	–	525,798
Total financial liabilities	27,552,693	1,068,089	1,208,903	98,353	5,247,800	2,497,741	12,335	37,685,914
Non-financial liabilities	24,085	–	–	–	–	–	–	24,085
Total liabilities	27,576,778	1,068,089	1,208,903	98,353	5,247,800	2,497,741	12,335	37,709,999
Total equity (including NCI)	5,210,915	–	–	–	–	–	–	5,210,915
Total equity and liabilities	32,787,693	1,068,089	1,208,903	98,353	5,247,800	2,497,741	12,335	42,920,914
Net financial position of financial instruments	5,450,939	90,076	41,984	40,412	545,598	(1,920,498)	9,058	4,257,569
Credit commitments	–	–	89,574	680	–	14,361	–	104,615

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

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	ZAR[1] N$'000	Other[2] N$'000	Total N$'000
As at 30 June 2016							
ASSETS							
Financial assets	30,481,024	44,941	435,107	136,302	292,718	186,438	31,576,530
Non-financial assets	757,123	–	–	–	–	–	757,123
Total assets	31,238,147	44,941	435,107	136,302	292,718	186,438	32,333,653
LIABILITIES							
Financial liabilities	24,405,781	–	669,875	91,545	2,673,531	188,791	28,029,523
Non-financial liabilities	30,091	–	–	–	–	–	30,091
Total liabilities	24,435,872	–	669,875	91,545	2,673,531	188,791	28,059,614
Total equity	4,274,039	–	–	–	–	–	4,274,039
Total equity and liabilities	28,709,911	–	669,875	91,545	2,673,531	188,791	32,333,653
Net financial position of financial instruments	6,075,243	44,941	(234,768)	44,757	(2,380,813)	(2,353)	3,547,007
Credit commitments	–	–	634,025	5,892	13,054	575	653,546

[1] The Namibian dollar is pegged to the South African rand and is therefore not exposed to currency risk.

[2] Other foreign currency exposures included in the June 2016 table relates mainly to exposures to the Botswana pula: N$135.2 million due from other banks and N$135.2 million due to other banks is exposed to the Botswana pula.

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:

	2017	2016
USD	13.09	14.69
GBP	17.00	19.71
EUR	14.94	16.30
ZAR	1.00	1.00
ZMW	1.43	1.50
BWP	1.28	1.35

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.2 Foreign currency risk (continued)

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:	Group Effect on profit for the year 2017 N$'000	 2016 N$'000
US dollar/Namibian dollar	329	(11,739)
– Foreign currency financial assets	37,032	21,755
– Foreign currency financial liabilities	(36,703)	(33,494)
Euro/Namibian dollar	1,960	2,238
– Foreign currency financial assets	5,481	6,815
– Foreign currency financial liabilities	(3,521)	(4,577)

	Group Effect on other comprehensive income 2017 N$'000	 2016 N$'000
The following effect of 5 % change would arise on equity instruments:		
Effect of US dollar-denominated equity instrument	7,426	6,644

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 earlier 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 ANNUAL FINANCIAL STATEMENTS (continued)

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 2017						
ASSETS						
Cash and balances with the central bank	549,540	–	–	–	993,530	1,543,070
Financial assets designated at fair value through profit or loss	1,925,113	552,474	1,221,816	269,232	–	3,968,635
Financial assets at amortised cost	4,302	14,341	231,622	49,422	–	299,687
Investment securities	–	–	–	–	149,381	149,381
Due from other banks	2,198,596	–	–	–	–	2,198,596
Loans and advances to customers	32,008,645	74,798	141,355	1,009,754	199,370	33,433,922
Other assets	58,628	–	–	–	291,564	350,192
Total financial assets	36,744,824	641,613	1,594,793	1,328,408	1,633,845	41,943,483
Non-financial assets	–	–	–	–	977,431	977,431
Total assets	36,744,824	641,613	1,594,793	1,328,408	2,611,276	42,920,914
LIABILITIES						
Due to other banks	317,914	–	–	–	–	317,914
Other borrowings	–	1,165,064	–	–	–	1,165,064
Debt securities in issue	25,142	3,437,909	–	642,526	–	4,105,577
Deposits	16,988,338	6,474,715	7,375,768	732,740	–	31,571,561
Other liabilities	–	–	–	–	525,798	525,798
Total financial liabilities	17,331,394	11,077,688	7,375,768	1,375,266	525,798	37,685,914
Total non-financial liabilities	–	–	–	–	24,085	24,085
Total liabilities	17,331,394	11,077,688	7,375,768	1,375,266	549,883	37,709,999
Total equity (including NCI)	–	–	–	–	5,210,915	5,210,915
Total equity and liabilities	17,331,394	11,077,688	7,375,768	1,375,266	5,760,798	42,920,914
Interest sensitivity gap (financial instruments)	19,413,430	(10,436,075)	(5,780,975)	(46,858)	1,108,047	4,257,569
Cumulative interest sensitivity gap (financial instruments)	19,413,430	8,977,355	3,196,380	3,149,522	4,257,569	
As at 30 June 2016						
Interest sensitivity gap (financial instruments)	13,428,801	(6,967,662)	(2,950,566)	(504,246)	540,680	3,547,007
Cumulative interest sensitivity gap (financial instruments)	13,428,801	6,461,139	3,510,573	3,006,327	3,547,007	

The interest-rate sensitivity gap is determined based on methodology applied when reviewing interest rate risk.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

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 2017 N$'000	Group 2016 N$'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	51,889	33,890
– Increase in interest income	216,251	155,341
– Increase in interest expense	(164,362)	(121,451)
50 basis points decrease	(49,035)	(33,626)
– Decrease in interest income	(208,914)	(155,112)
– Decrease in interest expense	159,879	121,486
100 basis points increase	104,212	68,044
– Increase in interest income	432,681	310,931
– Increase in interest expense	(328,469)	(242,887)
100 basis points decrease	(97,641)	(66,811)
– Decrease in interest income	(417,655)	(309,818)
– Decrease in interest expense	320,014	243,007
200 basis points increase	210,330	136,958
– Increase in interest income	866,068	622,806
– Increase in interest expense	(655,738)	(485,848)
200 basis points decrease	(212,002)	(153,703)
– Decrease in interest income	(834,537)	(617,284)
– Decrease in interest expense	622,535	463,581

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

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 designated at fair value through profit or loss and equity securities classified as available for sale.

The equity securities are listed on the FTSE and NYSE and are included in "investment securities" on the statement of financial position.

The group generally does not undertake equity exposure. The exposure arose due to specific circumstances and are managed individually.

	Sensitivity analysis	Group 2017 N$'000	Group 2016 N$'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)	14,938	13,400
	10 % decrease in share price (effect on other comprehensive income)	(14,938)	(13,400)
(ii)	*Financial assets designated at fair value through profit or loss*		
	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)	(5,622)	(7,172)
	100 basis points decrease in discount rate (effect on profit or loss)	5,679	7,246
	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)	(6,328)	(3,493)
	100 basis points decrease in discount rate (effect on profit or loss)	6,636	3,684

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 2017 N$'000	Capital charges 2016 N$'000
Interest rate risk	19,686	11,085
Foreign exchange risk	15,914	37,068

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

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; and
- 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; and
- 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

As part of the banks' strategy, the banks continuously focus 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 have strong market share representation in all categories.

As discussed in the leadership report, the Government Institutions Pension Fund ("GIPF") became a substantial shareholder in the group. GIPF showed their commitment to fulfil the role of shareholder of reference by advancing a long-term senior debt funding of N$1.3 billion to the group as part of the transaction.

As part of the above transaction Capricorn Group received N$1 billion from CIH and GIPF to fund committed contingency funding facilities to the three banking entities in the group. In addition to the committed facilities from Capricorn Group, Bank Windhoek also created ring-fenced investment portfolios consisting of high-quality liquid assets to create additional liquidity buffers. This significantly reduces the liquidity risk of the group's banking entities.

GIPF as a substantial shareholder reduces both the capital and liquidity risk of the group. CIH and GIPF will both fulfil the role of shareholders of reference to the group, providing funding support to the group in general and more specifically to its banking operations.

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 that:

- includes a buffer portion;
- is additional to credit lines;
- is adequate to cater for unexpected outflows; and
- is simultaneously limiting the effect this surplus has on interest margins.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

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 2017						
FINANCIAL LIABILITIES						
Due to other banks	317,914	–	–	–	–	317,914
Other borrowings	–	–	373,654	1,651,487	364,048	2,389,189
Debt securities in issue	–	281,189	457,498	2,593,924	2,672,118	6,004,729
Deposits	15,432,602	5,182,017	10,098,460	1,728,276	–	32,441,355
Other liabilities	525,804	–	–	–	–	525,804
Total liabilities (contractual maturity dates)	16,276,320	5,463,206	10,929,612	5,973,687	3,036,166	41,678,991
Commitments	3,359,352	–	–	–	–	3,359,352
Loan commitments	1,763,653	–	–	–	–	1,763,653
Liabilities under guarantees	1,495,326	–	–	–	–	1,495,326
Letters of credit	100,373	–	–	–	–	100,373
As at 30 June 2016						
Due to other banks	447,129	–	–	–	–	447,129
Other borrowings	–	–	–	1,564,902	814,468	2,379,370
Debt securities in issue	3,513	52,789	598,748	1,832,937	260,414	2,748,401
Deposits	13,211,843	2,671,996	6,363,330	2,255,025	519	24,502,713
Other liabilities	472,871	797	–	5,983	–	479,651
Total liabilities (contractual maturity dates)	14,135,356	2,725,582	6,962,078	5,658,847	1,075,401	30,557,264
Commitments	4,178,836	–	–	–	–	4,178,836
Loan commitments	2,094,090	–	–	–	–	2,094,090
Liabilities under guarantees	1,450,178	–	–	–	–	1,450,178
Letters of credit	634,568	–	–	–	–	634,568

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

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 2017							
ASSETS							
Cash and balances with the central bank	–	1,543,070	–	–	–	–	1,543,070
Financial assets designated at fair value through profit or loss	–	1,678,600	796,559	921,816	261,527	310,133	3,968,635
Financial assets at amortised cost	–	235,784	–	18,861	32,377	12,665	299,687
Investment securities	–	149,381	–	–	–	–	149,381
Due from other banks	–	2,198,596	–	–	–	–	2,198,596
Gross loans and advances to customers	–	5,513,106	466,530	1,064,533	7,623,099	19,079,290	33,746,558
Other assets	–	350,192	–	–	–	–	350,192
Non-financial instruments	977,431	–	–	–	–	–	977,431
Impairment	(312,636)	–	–	–	–	–	(312,636)
Total assets	664,795	11,668,729	1,263,089	2,005,210	7,917,003	19,402,088	42,920,914
LIABILITIES							
Due to other banks	–	317,914	–	–	–	–	317,914
Other borrowings		–	–	167,273	820,405	177,386	1,165,064
Debt securities in issue	–	–	194,589	213,339	1,763,747	1,933,902	4,105,577
Deposits	–	15,375,893	5,161,934	9,439,008	1,594,726	–	31,571,561
Other liabilities	–	525,798	–	–	–	–	525,798
Non-financial instruments	24,085	–	–	–	–	–	24,085
Total liabilities	24,085	16,219,605	5,356,523	9,819,620	4,178,878	2,111,288	37,709,999
Net liquidity gap	640,710	(4,550,876)	(4,093,434)	(7,814,410)	3,738,125	17,290,800	5,210,915
Cumulative liquidity gap	640,710	(3,910,166)	(8,003,600)	(15,818,010)	(12,079,885)	5,210,915	

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

Liquidity risk analysis (continued)

	Contractual discounted cash flows						
	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 2016							
ASSETS							
Cash and balances with the central bank	–	1,169,170	–	–	–	–	1,169,170
Financial assets designated at fair value through profit or loss	–	570,061	568,320	1,174,960	37,593	57,262	2,408,196
Investment securities	–	133,998	–	–	–	–	133,998
Due from other banks	–	1,006,602	–	–	–	–	1,006,602
Gross loans and advances to customers	–	4,413,683	350,940	624,584	4,964,204	16,471,899	26,825,310
Other assets	–	260,541	–	–	–	–	260,541
Non-financial instruments	757,123	–	–	–	–	–	757,123
Impairment	(227,287)	–	–	–	–	–	(227,287)
Total assets	529,836	7,554,055	919,260	1,799,544	5,001,797	16,529,161	32,333,653
LIABILITIES							
Due to other banks	–	447,129	–	–	–	–	447,129
Other borrowings	–	–	–	–	756,892	407,159	1,164,051
Debt securities in issue	–	2,747	22,831	471,725	1,537,042	181,000	2,215,345
Deposits	–	13,167,016	2,590,622	5,896,060	2,069,912	518	23,724,128
Other liabilities	–	472,871	705	–	5,294	–	478,870
Non-financial instruments	30,091	–	–	–	–	–	30,091
Total liabilities	30,091	14,089,763	2,614,158	6,367,785	4,369,140	588,677	28,059,614
Net liquidity gap	499,745	(6,535,708)	(1,694,898)	(4,568,241)	632,657	15,940,484	4,274,039
Cumulative liquidity gap	499,745	(6,035,963)	(7,730,861)	(12,299,102)	(11,666,445)	4,274,039	

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.

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 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 designated at fair value through profit or loss

Treasury bills

Treasury bills are designated at fair value through profit or loss based on the discounted valuation technique using quoted market prices and rates.

Government stock

Government stock and other bonds guaranteed by either the Namibian, South African or Botswanan governments are designated at fair value 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

(a) Fair value estimation (continued)

(iii) Financial assets designated at fair value through profit or loss (continued)

Money market investments

For money market investments, the carrying value approximates its fair value.

Other debt securities

- *Corporate bonds*

  Corporate bonds guaranteed by the respective corporates are designated at fair value 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, South African or Zambian governments, 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. 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 tradeability.

(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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

(a) Fair value estimation (continued)

(x) Debt securities in issue

Financial instruments included in this category include senior debt, callable bonds, debentures 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$4.0 billion (2016: N$2.2 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$625.4 million (2016: N$610.1 million), refer to note 3.5 (b).

(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 the over-the-counter 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 ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

Group	Level 1 N$'000	Level 2 N$'000	Level 3 N$'000	Total N$'000
As at 30 June 2017				
Financial assets measured at fair value				
Financial assets designated at fair value through profit or loss	1,116,990	2,851,645	–	3,968,635
– Treasury bills	–	2,304,271	–	2,304,271
– Government stock	–	211,018	–	211,018
– Unit trust investments	–	24,103	–	24,103
– Money market investments	1,116,990	–	–	1,116,990
– Tradable instruments with banks	–	302,427	–	302,427
– Other instruments	–	9,826	–	9,826
Available-for-sale financial assets				
– Investment securities – listed	149,381	–	–	149,381
	1,266,371	2,851,645	–	4,118,016
Financial assets for which the fair value is disclosed				
Loans and advances to customers	–	–	33,902,486	33,902,486
Financial assets at amortised cost	–	322,285	–	322,285
– Treasury bills	–	276,437	–	276,437
– Government stock	–	45,848	–	45,848
	–	322,285	33,902,486	34,224,771
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
– Derivative financial instruments (included in other liabilities)	–	8,622	–	8,622
Financial liabilities for which the fair value is disclosed				
Other borrowings	–	–	1,165,739	1,165,739
Debt securities in issue	–	–	4,033,129	4,033,129
– Five-year callable bonds	–	–	246,794	246,794
– Senior debt – unsecured	–	–	2,853,866	2,853,866
– Debentures	–	–	907,327	907,327
– Preference shares (floating rate note)	–	–	25,142	25,142
Deposits	–	–	625,378	625,378
– Promissory notes	–	–	506,406	506,406
– Replica notes	–	–	118,972	118,972
	–	–	5,824,246	5,824,246

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

Group	Level 1 N$'000	Level 2 N$'000	Level 3 N$'000	Total N$'000
As at 30 June 2016				
Financial assets measured at fair value				
Financial assets designated at fair value through profit or loss	229,677	2,178,519	–	2,408,196
– Treasury bills	–	2,051,859	–	2,051,859
– Government stock	–	94,855	–	94,855
– Unit trust investments	–	22,565	–	22,565
– Money market investments	229,677	–	–	229,677
– Other instruments	–	9,240	–	9,240
Available-for-sale financial assets				
– Investment securities – listed	133,998	–	–	133,998
	363,675	2,178,519	–	2,542,194
Financial assets for which the fair value is disclosed				
Loans and advances to customers	–	–	26,996,930	26,996,930
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
– Derivative financial instruments (included in other liabilities)	–	6,069	–	6,069
Financial liabilities for which the fair value is disclosed				
Other borrowings	–	–	1,207,090	1,207,090
Debt securities in issue	–	–	2,193,067	2,193,067
– Five-year callable bonds	–	–	180,607	180,607
– Senior debt – unsecured	–	–	1,987,318	1,987,318
– Preference shares (floating rate note)	–	–	25,142	25,142
Deposits	–	–	610,061	610,061
– Promissory notes	–	–	490,152	490,152
– Replica notes	–	–	119,909	119,909
	–	–	4,010,218	4,010,218

No transfers between level 1, level 2 or level 3 fair value measurements occurred during the year under review.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

(c) Sensitivity analysis

The sensitivity analysis performed below is for financial instruments for which the fair value is disclosed and includes Bank Windhoek only as the most significant component. Sensitivity analysis performed on financial instruments recognised at fair value are included in note 3.3.4.

	Group	
	2017 N$'000	2016 N$'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	(916,628)	(873,442)
100 basis points decrease in discount rate	988,576	943,648
100 basis points increase in earnings rate	115,728	173,334
100 basis points decrease in earnings rate	(129,689)	(181,775)
1 month increase in term to maturity	(34,939)	(32,255)
1 month decrease in term to maturity	34,266	31,043
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	(129)	–
100 basis points decrease in discount rate	131	–
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	(1,186)	–
100 basis points decrease in discount rate	1,289	–
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	11,866	48,936
100 basis points decrease in discount rate	(45,046)	(22,098)
100 basis points increase in JIBAR rate	(47,637)	(25,007)
100 basis points decrease in JIBAR rate	15,774	53,639
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	(82,123)	(41,225)
100 basis points decrease in discount rate	87,478	42,408
100 basis points increase in coupon rate	90,452	43,858
100 basis points decrease in coupon rate	(90,452)	(43,858)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair values of financial assets and liabilities (continued)

(c) Sensitivity analysis (continued)

	Group	
	2017 N$'000	2016 N$'000
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	(3,698)	(3,267)
100 basis points decrease in discount rate	3,754	3,317
The following is a sensitivity analysis showing the increase/(decrease) in the fair value of replica notes had the following changes arisen on the significant inputs:		
100 basis points increase in discount rate	(724)	(1,775)
100 basis points decrease in discount rate	731	1,809
100 basis points increase in coupon rate	967	2,030
100 basis points decrease in coupon rate	(967)	(2,030)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

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) 2017	2016
Financial assets measured at fair value				
Financial assets designated at fair value through profit or loss				
Treasury bills	Income approach*	Note 1	6.4% – 8.5%	5.8 % – 8.8 %
Government stock	Income approach*	Note 1	8.5% – 11.0%	8.7 % – 9.9 %
Unit trust investments	Market approach**	Note 4	Note 4	Note 4
Other debt securities				
– Corporate bonds	Income approach*	Note 1	10.1%	10.3 %
Financial assets for which the fair value is disclosed				
Loans and advances to customers	Income approach*			
– Discount rate		Note 1	BW: 10.75% BG: 7.0% CB: 10.0% & 28.0%	BW: 10.75 %
– Earnings rate		Note 2	BW: 6.3% – 17.2% BG: 4.5% – 30.5% CB: 0% – 34.0%	BW: 6.3 % – 19.0 %
– Term to maturity		Note 3	3 – 360 mth	3 – 360 mth
Financial assets at amortised cost				
Treasury bills	Income approach*	Note 1	BW: 6.4% – 8.5% CB: 3.0% – 19.9%	–
Government stock	Income approach*	Note 1	BW: 8.5% – 11.0% CB: 13.5% – 25.0%	–

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

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) 2017	2016
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	Income approach*	Note 1	7.2% – 8.5%	6.0 % – 7.8 %
Financial liabilities for which the fair value is disclosed				
Other borrowings	Income approach*			
– Discount rate		Note 1	10.0% – 11.8%	9.9 % – 12.3 %
– Earnings rate		Note 1	8.9% – 12.4%	8.9 % – 12.4 %
Debt securities in issue				
Five-year callable bonds	Income approach*	Note 1	9.8%	10.2 %
Senior debt – unsecured	Income approach*	Note 1	7.3% – 13.4%	8.3 % – 9.6 %
Debentures	Income approach*	Note 1	7.3% – 9.6%	–
Deposits				
Promissory notes	Income approach*	Note 1	8.2% – 8.6%	7.5 % – 8.7 %
Replica notes	Income approach*	Note 1	8.6% – 9.5%	7.9 % – 8.4 %

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.

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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.6 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; and
- 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; and
- 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; and
- 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

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

Deduction approach means deductions of 50% of the cost of investment in the affiliate is made from Tier 1 capital and 50% from Tier 2 capital.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.6 Capital management (continued)

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.

	Capricorn Group	
	2017 N$'000	2016 N$'000
Tier 1 capital		
Share capital and premium	727,264	532,206
General banking reserves	3,354,609	2,764,277
Retained earnings	1,417,173	771,552
Minority interests	154,533	–
Subtotal	5,653,579	4,068,035
Deduct: 50% investments in group entities		
Goodwill	(85,599)	(91,763)
50% investments in deconsolidated financial subsidiaries, significant minority and majority insurance entities and significant commercial entities	(162,749)	(141,651)
Net total Tier 1 capital	5,405,231	3,834,621
Tier 2 capital		
Subordinated debt	276,471	212,687
Five-year callable bonds	251,329	187,545
Preference shares	25,142	25,142
Portfolio impairment	355,916	294,082
Subtotal	632,387	506,769
Deduct: 50% investments in group entities		
50% investments in deconsolidated financial subsidiaries, significant minority and majority insurance entities and significant commercial entities	(120,150)	(121,491)
Net total Tier 2 capital	512,237	385,278
Total regulatory capital	5,917,468	4,219,899
Risk-weighted assets:		
Operational risk	3,937,320	2,590,443
Credit risk	30,913,912	23,691,985
Market risk	355,991	481,527
Total risk-weighted assets	35,207,223	26,763,955
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 CIHB and CCHZ during the year under review.		
Capital adequacy ratios:		
Leverage capital ratio	13.0%	12.6%
Tier 1 risk-based capital ratio	15.4%	14.3%
Total risk-based capital ratio	16.8%	15.8%

3. FINANCIAL RISK MANAGEMENT (continued)

3.6 Capital management (continued)

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; and
- control measures to mitigate the major risks.

Based on the ICAAP assessment performed on 30 November 2016, 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.

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 3.2.5 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

(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; and
- 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; or
- 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.

(f) Change in Capricorn Group operating model

Background information

During the year under review Government Institutions Pension Fund (GIPF) acquired a 25 % interest in Capricorn Group. Following the transaction, Capricorn Investment Holdings (CIH) and GIPF both fulfil the role of shareholders of reference and, in this manner, provide funding support to the group in general and more specifically to its banking operations. GIPF showed its commitment to fulfilling the role of shareholder of reference by offering immediate long-term senior debt funding of N$1.3 billion to the group. Similarly, CIH also committed to provide 10-year debt funding amounting to N$900 million. This funding enables the group to create a contingency fund of N$1 billion and to issue a committed contingent funding facility to its three operating banks.

Treatment of income and expenses

As a result of the above, Capricorn Group's operating model changed during the year under review to include its role as 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

5. NET INTEREST INCOME

	Group		Company	
	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'000
Interest and similar income				
Amortised cost				
Loans and advances	3,300,080	2,759,664	–	–
Cash and short-term funds	120,360	34,977	–	–
Financial assets at amortised cost	15,927	–	3,824	–
Treasury bills	13,632	–	–	–
Government stock and other investments	2,295	–	–	–
Preference shares	–	–	3,824	–
Fair value				
Financial assets designated at fair value through profit or loss	190,110	168,603	6,015	–
Treasury bills	170,588	164,895	–	–
Government stock and other investments	13,507	3,708	–	–
Other debt securities	6,015	–	6,015	–
Total interest and similar income	3,626,477	2,963,244	9,839	–
Interest and similar expenses				
Amortised cost				
Demand deposits	233,652	224,763	–	–
Term and notice deposits	534,781	313,018	–	–
Negotiable certificates of deposits	501,593	411,832	–	–
Cheque deposits	194,133	190,635	–	–
Debt securities in issue	234,838	189,112	14,499	–
Savings deposits	63,362	39,284	–	–
Deposits from banks and financial institutions	19,414	7,412	–	–
Other	195,207	129,046	1,685	–
Total interest and similar expenses	1,976,980	1,505,102	16,184	–
Net interest income	1,649,497	1,458,142	(6,345)	–

6. IMPAIRMENT CHARGES ON LOANS AND ADVANCES

	Group 2017 N$'000	Group 2016 N$'000
Increase in specific impairment (note 17)	55,032	54,241
Increase in portfolio impairment (note 17)	9,522	11,734
Amounts recovered during the year	(6,556)	(5,196)
	57,998	60,779

7. NON-INTEREST INCOME

7.1 Fee and commission income

	Group 2017 N$'000	Group 2016 N$'000
Transaction and related fees	720,900	578,624
Commissions	39,945	21,773
Other	16,415	6,843
	777,260	607,240

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

7. NON-INTEREST INCOME (continued)

	Group		Company	
	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'000
7.2 Net trading income				
Net foreign exchange gains and losses from trading assets	80,328	139,277	1,932	–
Net gain from financial instruments designated at fair value through profit or loss	21,081	3,399	12,903	–
	101,409	142,676	14,835	–

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 designated at fair value through profit or loss includes the gains and losses from treasury bills, government stock and derivative financial instruments.

	Group 2017 N$'000	Group 2016 N$'000	Company 2017 N$'000	Company 2016 N$'000
7.3 Other operating income				
Asset management and administration fees	82,589	85,827	–	–
Commission and insurance-related income	6,276	74,520	6,276	21,370
Dividend received – ordinary shares	651	2,303	257,447	374,977
Dividend received – BW Corporate Funds (deemed interest)	6,597	8,300	4,902	8,213
Dividend received – preference shares	14,925	–	14,925	–
Interest received	408	1,160	8,064	4,149
Profit on sale of property, plant and equipment	276	312	–	–
Profit on sale of residential units	2,531	12,810	–	–
Support services rendered	2,355	11,002	41,195	68,665
Other	2,908	7,654	991	243
	119,516	203,888	333,800	477,617
Total non-interest income	998,185	953,804	348,635	477,617

8. STAFF COSTS

	Group 2017 N$'000	Group 2016 N$'000	Company 2017 N$'000	Company 2016 N$'000
Wages and salaries	651,691	582,502	37,485	60,563
Share-based payment expense	9,126	6,228	3,263	1,104
Granted to directors	–	211	–	211
Granted to employees	9,126	6,017	3,263	893
Staff training costs	11,795	14,776	2,263	3,180
Pension costs – defined contribution plan	44,209	38,142	3,494	3,984
Adjustment to fair value for interest-free loans (note 17)	5,434	2,453	–	–
Severance pay liability (note 30)	731	1,044	–	–
	722,986	645,145	46,505	68,831

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

9. OPERATING EXPENSES

	Group		Company	
	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'000
Expenses by nature				
Advertising and marketing	30,633	24,839	3,180	961
Amortisation of intangible assets (note 22)	24,960	5,772	–	–
Asset management fees	–	2,506	–	–
Association transaction fees	104,060	87,056	–	–
Auditor's remuneration				
– Audit fees	5,324	3,917	435	442
– Fees for other services	1,565	1,376	399	419
Cash handling	8,525	6,555	–	–
Commission	10,679	6,755	–	–
Non-executive directors' emoluments	3,739	3,187	3,739	3,187
Depreciation of property, plant and equipment (note 23)	48,035	38,461	–	–
Finance costs	1,743	5,641	1,743	5,641
Insurance costs	3,987	2,493	–	–
Intragroup consultancy and management fees	–	5,644	223	138
Loss on sale of subsidiary	3,309	–	4,127	–
Motor vehicle costs	2,870	2,084	–	–
Office expense	6,502	3,176	–	–
Operating lease rentals – immovable property	82,974	65,267	–	335
Professional services	89,213	75,244	14,417	12,677
Repairs and maintenance	27,103	26,477	–	–
Security expenses	16,444	10,641	–	–
Staff costs (note 8)	722,986	645,145	46,505	68,831
Stamp duty	14,156	13,677	398	–
Stationery and printing	16,555	15,044	25	180
Sub-agents commission	–	956	–	–
Subscription fees	10,302	8,685	151	124
Technology costs	78,278	50,068	348	531
Telephone, postage and courier costs	17,955	13,502	39	55
Travelling	9,924	7,918	2,150	3,195
Valuation fees	5,047	6,053	–	–
Water and electricity	19,922	17,011	–	–
Other expenses	28,215	25,003	6,047	1,521
	1,395,005	1,180,153	83,926	98,237

Research and development costs of N$0.5 million (2016: N$0.5 million) are included in operating expenses above.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

10. SHARE OF ASSOCIATES' RESULTS AFTER TAX

	Group		Company	
	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'000
The following represents Capricorn Group's share of the associates' after tax results:				
Profit before taxation	95,169	114,061		
Taxation	(17,069)	(16,938)		
	78,100	97,123		
11. INCOME TAX EXPENSE				
11.1 Normal tax				
Current tax	349,028	350,709	–	2,873
– current year	349,028	350,709	–	2,873
– prior year	–	–	–	–
Deferred tax	7,224	13,785	–	–
– current year	7,224	13,785	–	–
– prior year	–	–	–	–
Total normal tax	356,252	364,494	–	2,873
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:				
Profit before tax and share of associates' results after tax	1,195,773	1,172,419	258,364	379,380
Tax at the applicable tax rate of 32% (2016: 32%)	382,647	375,174	82,676	121,402
Dividends received	(28,677)	(13,201)	(88,728)	(122,621)
Other non-taxable income	(10,426)	(4,068)	(5,979)	(7)
Non-deductible expenses	17,966	7,551	14,339	5,202
Change in tax rate	–	337	–	196
Unrecognised deferred tax asset	(2,308)	740	(2,308)	740
Utilised tax loss previously not recognised	–	(2,039)	–	(2,039)
Difference in tax rates	(2,950)	–	–	–
Income tax expense	356,252	364,494	–	2,873
Effective tax rate	29.8%	31.1%	0.0%	0.8%

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

12. EARNINGS AND HEADLINE EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the group's profit for the year attributable to the equity holders of the parent entity, by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares 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 re-measurements, net of tax, by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares held as treasury shares.

	2017		
Group	**Gross N$'000**	**Taxation N$'000**	**Net N$'000**
Earnings			
Profit for the year attributable to the equity holders of the parent entity			909,429
Headline adjustments	6,243	–	6,243
Loss on sale of subsidiary	3,309	–	3,309
Other	2,934	–	2,934
Headline earnings			915,672

	2016		
	Gross N$'000	**Taxation N$'000**	**Net N$'000**
Earnings			
Profit for the year attributable to the equity holders of the parent entity			905,048
Headline adjustments	230	100	330
Re-measurement included in equity-accounted earnings	542	–	542
Profit on sale of property, plant and equipment	(312)	100	(212)
Headline earnings			905,378

	Group	
	2017	**2016**
Number of ordinary shares in issue at year-end ('000) (note 31)	509,939	499,534
Adjusted for shares issued during the year ('000)	(5,799)	–
Weighted average number of ordinary shares in issue during the year ('000)	504,140	499,534
Adjusted for effect of future share-based payment transactions ('000)	1,198	1,158
Diluted weighted average number of ordinary shares in issue during the year ('000)	505,338	500,692
Earnings per ordinary share (cents)		
Basic	180.4	181.2
Fully diluted	180.0	180.8
Headline earnings per ordinary share (cents)		
Basic	181.6	181.2
Fully diluted	181.2	180.8

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

13. CASH AND BALANCES WITH THE CENTRAL BANK

	Group		Company	
	2017 N$'000	**2016 N$'000**	**2017 N$'000**	**2016 N$'000**
Cash balances	318,734	288,202	140,643	155,057
Balances with the central bank other than mandatory reserve deposits	549,540	617,370	–	–
Included in cash and cash equivalents	868,274	905,572	140,643	155,057
Mandatory reserve deposits with the respective central banks	674,796	263,598	–	–
	1,543,070	1,169,170	140,643	155,057

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.

14. FINANCIAL ASSETS

	Group		Company	
	2017 N$'000	**2016 N$'000**	**2017 N$'000**	**2016 N$'000**
Financial assets designated at fair value through profit or loss				
Treasury bills	2,304,271	2,051,859	–	–
Government stock	211,018	94,855	–	–
Unit trust investments	24,103	22,565	–	–
Money market investments	1,116,990	229,677	203,580	141,547
Tradable instruments with banks	302,427	–	302,427	–
Other debt securities	9,826	9,240	–	–
	3,968,635	2,408,196	506,007	141,547
Current	3,396,975	2,313,341	203,580	141,547
Non-current	571,660	94,855	302,427	–
	3,968,635	2,408,196	506,007	141,547
Financial assets at amortised cost				
Treasury bills	254,645	–	–	–
Government stock	45,042	–	–	–
Preference shares	–	–	200,411	–
	299,687	–	200,411	–
Current	254,645	–	–	–
Non-current	45,042	–	200,411	–
	299,687	–	200,411	–

14. FINANCIAL ASSETS (continued)

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 designated at fair value through profit or loss" in the statement of comprehensive income (note 7.2).

Treasury bills (including Bank of Botswana certificates) and government stocks are securities issued by the Namibian treasury department and Bank of Botswana for a term of fourteen days, three months, six months, a year, or longer. Treasury bills and government stock with a maturity of less than 90 days from the reporting date, as well as money market investments, are included in cash and cash equivalents for the purposes of the cash flow statement. Refer to note 39.

The above-mentioned debt securities are managed and their performance evaluated on a fair value basis in accordance with a documented risk management strategy. Treasury bills with a nominal value of N$290 million (2016: N$320 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 (2016: nil) at the Bank of Namibia. Bank of Botswana certificates with a nominal value of N$165 million are pledged as security with the Bank of Botswana. At 30 June 2017 no treasury bills have been collateralised under a sale-and-buyback agreement (2016: nil).

Refer to note 3.5 for fair value methodology used.

15. INVESTMENT SECURITIES

	Group 2017 N$'000	Group 2016 N$'000
Available-for-sale		
Investment securities – listed	149,381	133,998
The movement during the year is summarised as follows:		
Opening balance	133,998	100,533
Change in value of available-for-sale financial assets	15,383	33,465
Closing balance	149,381	133,998
Current	149,381	133,998

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 and 30,304 shares in Visa Inc.

Refer to note 3.5 for fair value methodology used.

16. DUE FROM OTHER BANKS

	Group 2017 N$'000	Group 2016 N$'000
Placement with other banks	2,198,596	1,006,602

Placements with other banks are callable on demand and are therefore current assets.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

17. LOANS AND ADVANCES TO CUSTOMERS

	Group 2017 N$'000	Group 2016 N$'000
Overdrafts	5,402,460	4,156,406
Term loans	7,729,446	4,977,056
Mortgages	16,616,534	13,738,202
– Residential mortgages	9,515,415	7,620,471
– Commercial mortgages	7,101,119	6,117,731
Instalment finance	3,557,131	3,435,162
Preference shares	440,987	518,484
Gross loans and advances	33,746,558	26,825,310
Less impairment		
Specific impairment	(191,412)	(147,829)
Portfolio impairment	(121,224)	(79,458)
	33,433,922	26,598,023
Notional value of loans and advances	33,859,652	26,862,726
Interest in suspense (contractual interest suspended on non-performing loans)	(113,094)	(37,416)
Gross loans and advances	33,746,558	26,825,310

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 2017					
Balance at the beginning of the year	77,430	47,561	44,245	58,051	227,287
– Specific impairment	59,725	23,278	22,417	42,409	147,829
– Portfolio impairment	17,705	24,283	21,828	15,642	79,458
Loan impairment – specific	(9,015)	40,866	12,079	11,102	55,032
Loan impairment – portfolio	(1,321)	5,937	7,679	(2,773)	9,522
Acquisition of subsidiaries	538	54,674	17,964	11,582	84,758
– Specific impairment	429	36,282	12,979	2,824	52,514
– Portfolio impairment	109	18,392	4,985	8,758	32,244
Amounts written off during the year as uncollectable	(18,833)	(19,016)	(649)	(25,465)	(63,963)
Balance at the end of the year	48,799	130,022	81,318	52,497	312,636
– Specific impairment	32,306	81,410	46,826	30,870	191,412
– Portfolio impairment	16,493	48,612	34,492	21,627	121,224

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

17. LOANS AND ADVANCES TO CUSTOMERS (continued)

	Overdrafts N$'000	Term loans N$'000	Mortgages N$'000	Instalment finance N$'000	Total N$'000
30 June 2016					
Balance at the beginning of the year	63,404	62,071	35,031	35,391	195,897
– Specific impairment	49,158	35,910	16,829	26,277	128,174
– Portfolio impairment	14,246	26,161	18,202	9,114	67,723
Loan impairment – specific	22,840	3,726	6,188	21,487	54,241
Loan impairment – portfolio	3,459	(1,878)	3,625	6,528	11,734
Amounts written off during the year as uncollectable	(12,273)	(16,358)	(599)	(5,355)	(34,585)
Balance at the end of the year	77,430	47,561	44,245	58,051	227,287
– Specific impairment	59,725	23,278	22,417	42,409	147,829
– Portfolio impairment	17,705	24,283	21,828	15,642	79,458

	Group			
	2017 N$'000	2017 %	2016 N$'000	2016 %
Specific and portfolio impairment by geographical area				
Namibia	201,316		227,287	
Botswana	103,930		–	
Zambia	7,390		–	
	312,636		227,287	
The following is a sensitivity analysis showing the increase/(decrease) in the portfolio impairment had the following changes arisen on the significant inputs:				
100 basis points increase in probability of default	6,298		4,445	
100 basis points decrease in probability of default	(6,298)		(4,445)	
1,000 basis points increase in loss given default	15,481		1,312	
1,000 basis points decrease in loss given default	(15,481)		(1,312)	
Maturity analysis of loans and advances to customers for the group were as follows:				
Repayable within 1 month	5,513,106	16.4	4,413,683	16.5
Repayable after 1 month but within 3 months	466,530	1.4	350,940	1.3
Repayable after 3 months but within 6 months	514,468	1.5	343,323	1.3
Repayable after 6 months but within 12 months	550,065	1.6	281,261	1.0
Repayable after 12 months	26,702,389	79.1	21,436,103	79.9
	33,746,558	100.0	26,825,310	100.0

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

17. LOANS AND ADVANCES TO CUSTOMERS (continued)

	Group 2017 N$'000	Group 2016 N$'000
The loans and advances to customers include instalment finance receivables, which are analysed as follows:		
Repayable within 1 year	260,974	156,561
Repayable after 1 year but within 5 years	4,227,960	4,223,242
Repayable after 5 years	7,978	39,710
Gross investment in instalment finances	4,496,912	4,419,513
Unearned future finance income on instalment finances	(1,039,569)	(1,072,068)
Net investment in instalment finances	3,457,343	3,347,445

The group has not sold or pledged any advances to third parties.

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. Such loans are full recourse loans and if not repaid, Bank Windhoek 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$39.9 million (2016: N$34.7 million) relating to the above-mentioned scheme.

The movements on these staff loans were as follows:

	Group 2017 N$'000	Group 2016 N$'000
Opening balance	34,656	25,035
New loans advanced during the year	17,953	13,793
Loans redeemed during the year	(16,458)	(5,248)
Staff costs (adjustment to fair value)	(5,434)	(2,453)
Effective interest charged	9,225	3,529
Closing balance	39,942	34,656

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

18. OTHER ASSETS

	Group		Company	
	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'000
Insurance fund asset	58,628	55,085	–	–
Accounts receivable	171,511	73,989	32,305	15,649
Clearing, settlement and internal accounts	119,982	131,238	–	–
Prepayments	42,376	26,944	–	–
Other taxes	663	9,332	221	221
Inventory	57,034	43,713	–	–
Derivative financial instruments – interest rate swaps	71	229	–	–
	450,265	340,530	32,526	15,870
Current	334,532	241,503	32,526	15,870
Non-current	115,733	99,027	–	–
	450,265	340,530	32,526	15,870

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 liabilities (note 28), at 30 June 2017 was N$420.0 million (2016: N$412.0 million).

Refer to note 3.2.5 for credit quality disclosure of financial instruments included in other assets.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

19. INVESTMENT IN SUBSIDIARIES

The following information relates to the company's financial interests in its unlisted subsidiaries:

	Number of shares held '000	Issued ordinary share capital and premium N$'000	Effective holding 2017 %	Effective holding 2016 %
Subsidiaries of Capricorn Group				
Bank Windhoek Ltd	4,920	485,000	100	100
Welwitschia Insurance Brokers (Pty) Ltd	0.31	1,300	–	100
Namib Bou (Pty) Ltd	600	23,000	100	100
Capricorn Asset Management (Pty) Ltd	55	1,001	100	100
Capricorn Unit Trust Management Company Ltd	2,000	2,000	100	100
Capricorn Capital (Pty) Ltd	4	100	100	–
Capricorn Investment Holdings (Botswana) Ltd	42,881	318,858	68.7	–
Cavmont Capital Holdings Zambia Plc	111,625	207,340	97.9	–
Mukumbi Investments (Pty) Ltd	5	33	100	–
Subsidiaries of Bank Windhoek Ltd				
Bank Windhoek Nominees (Pty) Ltd	0.1	0.1	100	100
BW Finance (Pty) Ltd	0.1	0.1	100	100
Bank Windhoek Properties (Pty) Ltd	1	1	100	100
Subsidiaries of Capricorn Investment Holdings (Botswana) Ltd				
Bank Gaborone Ltd	220,000	297,309	100	–
Penrich Employee Benefits (Pty) Ltd	1	8,124	100	–
Capricorn Asset Management (Botswana) (Pty) Ltd	1	2,579	100	–
Subsidiaries of Cavmont Capital Holdings Zambia Plc				
Cavmont Bank Ltd	19,075	26,445	100	–

19. INVESTMENT IN SUBSIDIARIES (continued)

	Aggregate income of subsidiaries (after tax)		Total investment	
	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'000
Financial details of subsidiaries				
Subsidiaries of Capricorn Group				
Bank Windhoek Ltd (consolidated)	775,433	762,904	520,440	520,440
Welwitschia Insurance Brokers (Pty) Ltd	–	6,006	–	8,847
Namib Bou (Pty) Ltd	1,166	8,518	23,000	23,000
Capricorn Asset Management (Pty) Ltd	20,895	24,683	127,954	127,954
Capricorn Unit Trust Management Company Ltd	17,090	13,900	64,750	64,750
Capricorn Capital (Pty) Ltd	–	–	163	–
Capricorn Investment Holdings (Botswana) Ltd (consolidated 6 months)	37,589	–	353,344	–
Cavmont Capital Holdings Zambia Plc (consolidated 6 months)	2,955	–	57,170	–
Mukumbi Investments (Pty) Ltd (6 months)	(58)	–	55,182	–
	855,070	816,011	1,202,003	744,991
Non-current			1,202,003	744,991
Subsidiaries of Bank Windhoek Ltd				
BW Finance (Pty) Ltd	13,189	7,480	0.1	0.1
Bank Windhoek Properties (Pty) Ltd	8,628	5,627	19,799	19,799
	21,817	13,107	19,799	19,799
Subsidiaries of Capricorn Investment Holdings (Botswana) Ltd				
Bank Gaborone Ltd (6 months)	36,066	–	293,461	–
Penrich Employee Benefits (Pty) Ltd (6 months)	(12)	–	8,040	–
Capricorn Asset Management (Botswana) (Pty) Ltd (6 months)	(31)	–	2,552	–
	36,023	–	304,053	–
Subsidiaries of Cavmont Capital Holdings Zambia Plc				
Cavmont Bank Ltd (6 months)	2,084	–	214,761	–
	2,084	–	214,761	–

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 BWP1.283 and ZMW1.410 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 ANNUAL FINANCIAL STATEMENT (continued)

20. INVESTMENT IN ASSOCIATES

Set out below are the associates of the group as at 30 June. 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$'000	Effective holding 2017 and 2016 %	Shares at cost 2017 N$'000	Shares at cost 2016 N$'000
Associates of Capricorn Group					
Santam Namibia Ltd	1,230	8,307	28.0	62,905	62,905
Sanlam Namibia Holdings (Pty) Ltd	30	160,665	29.5	47,290	47,290
				110,195	110,195

20.1 Santam Namibia Ltd

The company holds a 28 % interest in Santam Namibia Ltd, a short-term insurance company.

	Group		Company	
	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'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	31,951	34,558		
– Profit before tax	46,651	48,659		
– Current and deferred tax	(14,700)	(14,101)		
Dividends paid	(29,352)	(23,063)		
Post-acquisition retained income at the beginning of the year	61,032	49,537		
	126,536	123,937	62,905	62,905
Directors' valuation	307,083	285,323	307,083	285,323

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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

20. INVESTMENT IN ASSOCIATES (continued)

20.1 Santam Namibia Ltd (continued)

	Group 2017 N$'000	Group 2016 N$'000	Company 2017 N$'000	Company 2016 N$'000
Summarised financial information (unaudited)				
Revenue (net earned premium)	865,347	819,806		
Profit after tax	114,296	123,621		
Total comprehensive income	114,296	123,621		
Non-current assets	425,572	354,553		
Technical assets	288,234	417,212		
Current assets	294,476	423,922		
Non-current liabilities	(18,654)	(16,884)		
Technical liabilities	(447,821)	(585,949)		
Current liabilities	(172,726)	(233,071)		
Net asset value	369,081	359,783		
Interest in associate (28 %)	103,176	100,577		
Goodwill on acquisition	23,360	23,360		
Carrying value of investment in associate	126,536	123,937		

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 2017 N$'000	Group 2016 N$'000	Company 2017 N$'000	Company 2016 N$'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	46,149	62,501		
– Profit before tax	48,518	65,338		
– Current and deferred tax	(2,369)	(2,837)		
Dividends paid	(50,377)	(58,920)		
Post-acquisition retained income at the beginning of the year	76,184	72,603		
	119,246	123,474	47,290	47,290
Directors' valuation	415,415	381,242	415,415	381,242

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

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 2017 N$'000	Group 2016 N$'000	Company 2017 N$'000	Company 2016 N$'000
Summarised financial information (unaudited)				
Revenue (net insurance income)	826,239	763,953		
Profit after tax	156,654	212,161		
Total comprehensive income	156,654	212,161		
Non-current assets	3,747,132	3,746,400		
Current assets	325,941	174,155		
Non-current liabilities	(3,405,471)	(3,335,189)		
Current liabilities	(325,986)	(229,398)		
Net asset value	341,616	355,968		
Interest in associate (29.5 %)	100,640	104,868		
Goodwill on acquisition	18,606	18,606		
Carrying value of investment in associate	119,246	123,474		

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 2017 have been used for equity-accounting the share of results of associates for their half-year ended 30 June 2017.

	Group 2017 N$'000	Group 2016 N$'000	Company 2017 N$'000	Company 2016 N$'000
Total investment in associates (non-current)	245,782	248,297	110,195	110,195

Refer to note 40 for related party transactions and balances with associates.

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 are equity accounted. Management accounts as at 30 June 2017 have been used for equity-accounting the share of results for the year ended 30 June 2017. The value of the group's share in assets, liabilities, income and expenditure is not significant to the group as a whole. These components are therefore not disclosed.

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.

	Number of shares held '000	Issued ordinary share capital and premium N$'000	Effective holding 2017 and 2016 %	Shares at cost 2017 N$'000	Shares at cost 2016 N$'000
Namclear (Pty) Ltd	4	4,616	25	1,154	1,154

	Group 2017 N$000	Group 2016 N$000
Opening balance	5,099	3,694
The group's share of the profit in the joint venture	1,094	1,405
Closing balance	6,193	5,099
Non-current	6,193	5,099
Directors' valuation	6,193	5,099
Technique used for directors' valuation		
The directors' valuation was determined by using its net asset value.		
Aggregated summarised financial information of Namclear (Pty) Ltd		
Profit after tax	4,376	5,618
Total comprehensive income	4,376	5,618

Refer to note 40 for related-party transactions and balances with joint ventures.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

22. INTANGIBLE ASSETS

Group	Goodwill N$'000	Purchased software N$'000	Intangible assets in development N$'000	Internally generated software N$'000	Total N$'000
30 June 2017					
Cost					
Cost at 1 July 2016	48,687	64,880	12,746	147,402	273,715
Transfers	–	1,674	–	–	1,674
Acquisition of subsidiaries	25,550	53,500	4,067	–	83,117
Additions	–	1,184	3,338	67,108	71,630
Disposals (including disposal of subsidiary)	(3,169)	(8,608)	–	–	(11,777)
Cost at 30 June 2017	71,068	112,630	20,151	214,510	418,359
Amortisation					
Amortisation at 1 July 2016	–	(62,678)	(6,843)	(5,149)	(74,670)
Acquisition of subsidiaries	–	(29,746)	–	–	(29,746)
Charge for the year	–	(4,007)	–	(20,953)	(24,960)
Amortisation on disposals	–	2,697	–	–	2,697
Amortisation at 30 June 2017	–	(93,734)	(6,843)	(26,102)	(126,679)
Net book value at 30 June 2017	71,068	18,896	13,308	188,408	291,680
30 June 2016					
Cost					
Cost at 1 July 2015	48,687	64,521	110,855	–	224,063
Transfers	–	–	(147,402)	147,402	–
Additions	–	359	49,293	–	49,652
Cost at 30 June 2016	48,687	64,880	12,746	147,402	273,715
Amortisation					
Amortisation at 1 July 2015	–	(62,055)	(6,843)	–	(68,898)
Charge for the year	–	(623)	–	(5,149)	(5,772)
Amortisation at 30 June 2016	–	(62,678)	(6,843)	(5,149)	(74,670)
Net book value at 30 June 2016	48,687	2,202	5,903	142,253	199,045

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 2017 nor 30 June 2016.

Intangible assets consist of goodwill, computer software, including its related acquisition and development costs and intangible assets in development.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

22. INTANGIBLE ASSETS (continued)

Impairment of goodwill

An impairment test was performed on the recoverable amount of goodwill raised in the group. The goodwill comprises of the excess consideration paid for the non-controlling interest acquired in its subsidiary Capricorn Unit Trust Management Company Ltd (CUTM) of N$45.5 million and goodwill of N$25.6 million acquired as part of the CIHB acquisition. The impairment test was based on the value in use of the subsidiaries, taking the discounted cash flows into consideration. This indicated that the value of the companies are higher than the cost of shares acquired. Goodwill was therefore not impaired. Management used five-year projected cash flow models, growth rates in line with individual company forecasts and discount rates representing the company's weighted average cost of capital in measuring the impairment losses.

23. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and buildings N$'000	Computer and other equipment N$'000	Vehicles N$'000	Furniture, fittings and other office equipment N$'000	Total N$'000
30 June 2017					
Cost					
Cost at 1 July 2016	50,610	150,379	20,350	141,984	363,323
Additions	90	33,720	1,791	27,451	63,052
Acquisition of subsidiaries	33,120	24,678	7,504	96,452	161,754
Disposals (including disposal of subsidiary)	(1,075)	(3,686)	(1,104)	(439)	(6,304)
Cost at 30 June 2017	82,745	205,091	28,541	265,448	581,825
Depreciation					
Accumulated depreciation at 1 July 2016	(17,847)	(85,450)	(11,096)	(90,677)	(205,070)
Charge for the year	(2,152)	(25,777)	(2,723)	(17,383)	(48,035)
Acquisition of subsidiaries	(8,965)	(18,359)	(4,877)	(68,531)	(100,732)
Depreciation on disposals	–	3,522	1,007	291	4,820
Accumulated depreciation at 30 June 2017	(28,964)	(126,064)	(17,689)	(176,300)	(349,017)
Net book value at 30 June 2017	53,781	79,027	10,852	89,148	232,808

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

23. PROPERTY, PLANT AND EQUIPMENT (continued)

Group	Freehold land and buildings N$'000	Computer and other equipment N$'000	Vehicles N$'000	Furniture, fittings and other office equipment N$'000	Total N$'000
30 June 2016					
Cost					
Cost at 1 July 2015	50,575	196,131	19,274	150,683	416,663
Additions	35	26,161	5,132	12,000	43,328
Disposals	–	(71,913)	(4,056)	(20,699)	(96,668)
Cost at 30 June 2016	50,610	150,379	20,350	141,984	363,323
Depreciation					
Accumulated depreciation at 1 July 2015	(16,157)	(135,286)	(12,590)	(98,587)	(262,620)
Charge for the year	(1,690)	(21,932)	(2,080)	(12,759)	(38,461)
Depreciation on disposals	–	71,768	3,574	20,669	96,011
Accumulated depreciation at 30 June 2016	(17,847)	(85,450)	(11,096)	(90,677)	(205,070)
Net book value at 30 June 2016	32,763	64,929	9,254	51,307	158,253

There was no material change in the nature of property, plant and equipment or in the policy regarding its use during the year.

Details regarding the fixed properties as required in terms of Schedule 4 of the Companies Act 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, 2004. The company does not own any property, plant and equipment.

No assets were encumbered at 30 June 2017 nor 30 June 2016. All property, plant and equipment are classified as non-current assets.

24. DUE TO OTHER BANKS

	Group	
	2017 N$'000	2016 N$'000
Current accounts	140,611	447,129
Borrowings from other banks – in the normal course of business	177,303	–
	317,914	447,129
Current	317,914	447,129

Due to other banks are unsecured with no fixed repayment terms and bears interest at market-related interest rates.

25. OTHER BORROWINGS

	Group	
	2017 N$'000	2016 N$'000
Balance as at 1 July	1,164,051	–
Additions	–	1,170,000
Accrued interest	101,003	60,238
Coupon repayments	(99,990)	(66,187)
Balance as at 30 June	1,165,064	1,164,051
Current	167,273	–
Non-current	997,791	1,164,051
	1,165,064	1,164,051

Other borrowings consist of N$920 million and N$250 million long-term funding raised from IFC (International Finance Corporation) and DEG (Deutsche Investitions- und Entwicklungsgesellschaft) respectively during 2016. The IFC loan is repayable semi-annually over a seven-year term with quarterly interest repayments. The first capital repayment is due December 2017. Interest on the IFC loan is charged at three-month JIBAR plus an average spread of 2.95 %. The DEG loan is repayable semi-annually over an eight-year term with quarterly interest repayments. The first capital repayment is due March 2020. Interest on the DEG loan is charged at three-month JIBAR plus a spread of 3.65 %. No other borrowings were issued during the current year under review.

The group complied with all debt covenant requirements relating to these loans in the current financial year.

26. DEBT SECURITIES IN ISSUE

	Group		Company	
	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'000
Balance as at 1 July	2,215,345	2,461,212	25,142	150,969
Acquisition of subsidiaries	141,924	–	–	–
Redemptions	(473,766)	(436,516)	–	(127,395)
Additions	2,204,000	181,000	900,000	–
Effective interest	236,581	194,753	16,242	5,641
Coupon payments	(218,507)	(185,104)	(8,915)	(4,073)
Balance as at 30 June	4,105,577	2,215,345	932,469	25,142
Current	407,928	497,303	–	–
Non-current	3,697,649	1,718,042	932,469	25,142
	4,105,577	2,215,345	932,469	25,142

26. DEBT SECURITIES IN ISSUE (continued)

				Group	
Debt instruments	Interest rate	Maturity date	Notes	2017 N$'000	2016 N$'000
Five-year callable bonds					
BW25	9.75 %	18-Aug-25	26.1	187,533	187,545
Bonds issued by Bank Gaborone	BOBC rate +1.6 %	31-Oct-21	26.1	63,796	–
				251,329	187,545
Senior debt – unsecured					
BWJj16 floating rate note	3 mth JIBAR +110bps	14-Oct-16	26.2	–	71,236
BWJd17 floating rate note	3 mth JIBAR +94bps	25-Apr-17	26.2	–	101,511
BWFd19 fixed rate note	9.43 %	25-Apr-19	26.2	101,725	101,725
BWZj17 floating rate note	3 mth JIBAR +155bps	17-Mar-17	26.2	–	301,019
BWZj18 floating rate note	3 mth JIBAR +180bps	19-Nov-18	26.2	606,462	606,438
BWFh17 fixed rate note	8.09 %	22-Aug-17	26.2	149,180	149,189
BWFh19 fixed rate note	8.86 %	22-Aug-19	26.2	113,473	113,481
BWJh17 floating rate note	3 mth JIBAR +95bps	22-Aug-17	26.2	45,409	45,407
BWJe18 floating rate note	3 mth JIBAR +135bps	29-May-18	26.2	33,158	33,158
BWZ18B floating rate note	3 mth JIBAR +185bps	27-Mar-18	26.2	180,181	180,182
BWZ20A floating rate note	3 mth JIBAR +215bps	27-Mar-20	26.2	299,310	299,312
BWJj19 floating rate note	3 mth JIBAR +175bps	25-Oct-19	26.2	121,906	–
BWFj18 fixed rate note	9.55 %	25-Oct-18	26.2	105,820	–
BWRj21 fixed rate note	7.75 %	15-Oct-21	26.2	55,844	–
BWZj21 floating rate note	3 mth JIBAR +230bps	10-Nov-21	26.2	60,824	–
BWZj19 floating rate note	3 mth JIBAR +205bps	10-Nov-19	26.2	162,236	–
BWJ1e27 floating rate note	3 mth JIBAR +215bps	19-May-27	26.2	505,546	–
BWJ2e27 floating rate note	3 mth JIBAR	19-May-27	26.2	302,574	–
Senior debt issued by Bank Gaborone	7 % – 7.75 %	May-19; June-27		78,131	–
				2,921,779	2,002,658

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

26. DEBT SECURITIES IN ISSUE (continued)

Debt instruments	Interest rate	Maturity date	Notes	Group 2017 N$'000	Group 2016 N$'000
Preference shares (floating rate note)					
2,500 preference shares – Santam Namibia Ltd	64.5 % of prime	1-Dec-18	26.3	25,142	25,142
				25,142	25,142
Debentures					
Capricorn Investment Holdings Ltd	3 mth JIBAR	Dec-27	26.4	407,327	–
Capricorn Investment Holdings Ltd	3 mth JIBAR + 235 bps	Dec-27	26.4	500,000	–
				907,327	–
Total debt securities in issue at the end of the year				4,105,577	2,215,345
Listed debt securities				3,031,181	2,190,203
Unlisted debt securities				1,074,396	25,142
				4,105,577	2,215,345

26.1 Five-year callable bonds

The five-year callable bond BW25 was issued on 17 August 2015 and 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 bonds 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 Capricorn Investment Holdings Limited.

26.2 Senior debt – unsecured

The senior debt instruments, BWJj16, BWJd17, BWFd19, BWZj17, BWZj18, BWFh17, BWFh19, BWJh17, BWje18, BWZ18B, BWZ20A, BWJj19, BWFj18, BWRj21, BWZj21, BWZj19, BWJ1e27 and BWJ2e27 have been issued on 15 April 2013, 15 April 2013, 25 April 2014, 25 April 2014, 18 March 2014, 19 November 2013, 22 August 2014, 22 August 2014, 22 August 2014, 29 May 2015, 27 March 2015, 27 March 2015, 25 October 2016, 25 October 2016, 25 October 2016, 10 November 2016, 10 November 2016, 19 May 2017 and 19 May 2017 respectively. The interest is paid quarterly in February, May, August and November of each year for the BWZj18, BWJh17, BWJe18, BWZj21, BWZj19, BWJ1e27 and BWJ2e27 and in January, April, July and October each year for the BWJj16, BWJd17 and BWJj19. The interest is paid quarterly in March, June, September and December for BWZj17, BWZ18B and BWZ20A. Coupon payments for the BWRj21 are paid semi-annually on 15 April and 15 October. Coupon payments for the BWFd19 and BWFj18 are paid semi-annually on 25 April and 25 October. Coupon payments for the BWFh17 and BWFh19 are paid semi-annually on 22 February and 22 August.

The instruments mentioned above are under Bank Windhoek's Medium Term Note Programme, a programme registered with the Johannesburg and Namibian Stock Exchanges.

26. DEBT SECURITIES IN ISSUE (continued)

26.3 Preference shares

No new preference shares were issued by the company during the current or prior year.

26.4 Debentures

The debentures were issued by the company on 1 January 2017 and 1 April 2017. The interest is paid quarterly in arrears.

Debt securities in issue comprise subordinated debt, senior debt, preference shares and debentures with a combined nominal value of N$4.1 billion (2016: N$2.2 billion).

27. DEPOSITS

	Group 2017 N$'000	Group 2016 N$'000
Current accounts	7,007,250	6,014,557
Savings accounts	2,194,363	1,641,186
Demand deposits	3,966,508	3,883,260
Term and notice deposits	10,545,748	4,501,707
Negotiable certificates of deposits (NCDs)	6,594,658	6,176,458
Other deposits	1,263,034	1,506,960
	31,571,561	23,724,128

	Group 2017 N$'000	2017 %	2016 N$'000	2016 %
Maturity analysis within the customer current, savings, deposit account portfolio for the group were as follows:				
Withdrawable on demand	13,107,664	41.5	12,416,233	52.3
Maturing within 1 month	2,268,229	7.2	750,783	3.2
Maturing after 1 month but within 6 months	8,354,590	26.5	4,340,094	18.3
Maturing after 6 months but within 12 months	6,246,352	19.8	4,146,588	17.5
Maturing after 12 months	1,594,726	5.0	2,070,430	8.7
	31,571,561	100.0	23,724,128	100.0

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

28. OTHER LIABILITIES

	Group		Company	
	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'000
Accounts payable and other accruals	270,124	107,169	30,391	24,643
Employee liabilities	116,836	157,363	6,735	15,013
– Leave pay accrual	42,042	43,253	2,603	4,125
– Provision for performance bonuses	54,148	96,977	4,132	10,888
– PAYE payable	8,368	6,025	–	–
– Medical aid payable	6,368	5,626	–	–
– Pension payable	5,302	5,016	–	–
– Other	608	466	–	–
Deferred revenue	–	4,709	–	–
Other taxes	9,246	14,121	–	2,629
Derivative financial instruments – interest rate swaps	8,622	6,069	–	–
Clearing, settlement and internal accounts	130,216	208,269	–	–
	535,044	497,700	37,126	42,285
Current	535,044	492,406	37,126	42,285
Non-current	–	5,294	–	–
	535,044	497,700	37,126	42,285

The provision for performance bonuses is payable in September after the financial year-end.

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 2017 was N$420.0 million (2016: N$412.0 million).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

29. DEFERRED INCOME TAX

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 32% (2016: 32%).

The movement on the deferred income tax account is as follows:

	Group	
	2017 N$'000	2016 N$'000
Deferred tax (asset)/liability as at 1 July	(6,263)	(20,048)
Acquisition of subsidiaries	(27,905)	–
Sale of subsidiary	2,477	–
Charge to profit or loss (note 11)	7,224	13,785
Accelerated tax depreciation and amortisation	6,350	14,142
Loans and receivables	(1,763)	(2,535)
Government stock and other securities	(2,048)	1,067
Prepaid expenses	55	3,739
Accruals	(2,518)	(3,990)
Loan loss impairment	983	(3,080)
Change in the tax rate	–	337
Assessed loss	8,725	–
Other	(2,560)	4,105
Deferred tax asset as at 30 June	(24,467)	(6,263)
Deferred income tax assets and liabilities are attributable to the following items:		
Deferred income tax liability		
Accelerated tax depreciation and amortisation	57,776	37,932
Loans and receivables	–	5,508
Government stock and other securities	5,511	11,912
Prepaid expenses	8,657	8,484
Other temporary differences	–	5,243
	71,944	69,079
Deferred income tax asset		
Accruals	36,280	44,150
Loan loss impairment	29,643	26,570
Assessed loss	27,265	–
Derivative financial instruments	2,736	1,869
Deferred revenue	–	1,507
Other temporary differences	487	1,246
	96,411	75,342
Net deferred income tax asset	(24,467)	(6,263)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

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	
	2017 N$'000	2016 N$'000
Deferred tax liability		
Current	14,168	24,464
Non-current	57,776	44,615
Total	71,944	69,079
Deferred tax asset		
Current	89,342	73,005
Non-current	7,069	2,337
Total	96,411	75,342

30. POST-EMPLOYMENT BENEFITS

	Group	
	2017 N$'000	2016 N$'000
30.1 Severance pay liability		
A valuation was performed for 30 June 2017 by an independent actuary on the group's liability with respect to severance pay. The benefit is not funded.		
The amount recognised in the consolidated statement of financial position is determined as follows:		
Present value of unfunded obligation (non-current)	10,191	9,460
The movement in the severance pay obligation over the year is as follows:		
As at 1 July	9,460	8,416
Current service costs	(79)	172
Interest cost	810	872
As at 30 June	10,191	9,460
The amounts recognised in the consolidated statement of comprehensive income are as follows:		
Current service costs	(79)	172
Interest cost	810	872
	731	1,044
The principal actuarial assumptions used were as follows:	%	%
Discount rate	8.6	8.6
Inflation rate	6.4	6.4
Salary increases	7.4	7.4
The following sensitivity of the overall liability to changes in principal assumption is:		
Salary increase 1% lower per annum	8,924	8,924
Salary increase 1% higher per annum	10,053	10,053

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

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 2016 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	
	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'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
Issued ordinary share capital				
Balance as at 1 July	12,632	12,632	12,632	12,632
Shares issued during the year	290	–	290	–
Balance as at 30 June	12,922	12,632	12,922	12,632
Share premium				
Balance as at 1 July	527,234	527,234	527,234	527,234
Shares issued during the year	196,882	–	196,882	–
Balance at 30 June	724,116	527,234	724,116	527,234
Less: Treasury shares	(52,373)	(27,821)	(9,774)	(7,660)
Total ordinary share capital and premium	684,665	512,045	727,264	532,206
Issued number of ordinary shares reconciliation ('000):				
Issued number of shares at the beginning of the year	505,280	505,280	505,280	505,280
Shares issued during the year	11,598	–	11,598	–
Issued number of shares at the end of the year	516,878	505,280	516,878	505,280
Less: Treasury shares	(6,939)	(5,746)	(812)	(648)
Total number of ordinary shares issued at year-end	509,939	499,534	516,066	504,632

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

31. SHARE CAPITAL AND PREMIUM (continued)

Issued preference share capital

No new preference share capital was issued during the current or prior year. Refer to note 26. All issued shares are fully paid up.

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 31 October 2017, when the authority can be renewed. Refer to the directors' report.

The company's total number of issued ordinary shares at year-end was 516,878,336 (2016: 505,280,000). All issued shares are fully paid up.

32. NET ASSET VALUE PER SHARE

	Group	
	2017	**2016**
Net asset value per ordinary share (cents)		
Net assets (excluding non-controlling interest) (N$'000)	5,056,382	4,274,039
Weighted average number of ordinary shares in issue during the year ('000)	504,140	499,534
Net asset value per share (cents)	1,003	856

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$9.1 million in 2017 (2016: N$6.2 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' 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 ANNUAL FINANCIAL STATEMENTS (continued)

33. SHARE-BASED PAYMENTS (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 2017						
Opening balance	368	613	109	84	–	1,174
Acquisition of subsidiary	–	–	–	–	250	250
Granted	274	229	99	–	54	656
Vested	(24)	(233)	(58)	(6)	(124)	(445)
Forfeitures	(152)	(31)	–	–	–	(183)
Closing balance	466	578	150	78	180	1,452

	Capricorn Group	Bank Windhoek	Capricorn Asset Management	Capricorn Unit Trust Management	Total
30 June 2016					
Opening balance	224	579	64	–	867
Granted	144	175	45	84	448
Forfeitures	–	(141)	–	–	(141)
Closing balance	368	613	109	84	1,174

SARs issued in September 2013 vested in September 2016 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	2017	2016
September 2013	September 2016	September 2018	–	321
September 2014	September 2017	September 2019	370	423
September 2015	September 2018	September 2020	426	430
September 2016	September 2019	September 2021	656	–
			1,452	1,174
The weighted average remaining contractual life of options outstanding at the end of the year			3.2 years	3.1 years

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

33. SHARE-BASED PAYMENTS (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 executive directors and employees.

	Capricorn Group
30 June 2017	
Spot and strike price (N$)	17.45
Risk-free rate	8.1%
Dividend yield	3.8%
Volatility	35%
Membership attrition	5%

	Bank Windhoek	Capricorn Asset Management	Capricorn Unit Trust Management	Capricorn Group
30 June 2016				
Spot and strike price (N$)	15.77	2,365.91	46.48	15.77
Risk-free rate	8.2 %	8.2 %	8.2 %	8.2 %
Dividend yield	3.8 %	12 %	12 %	3.8 %
Volatility	35 %	35 %	35 %	35 %
Membership attrition	5 %	5 %	5 %	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' 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:

	2017 No. of CSPs '000	2016 No. of CSPs '000
Opening balance	1,248	946
Acquisition of subsidiary	118	–
Granted	485	369
Vested	(369)	–
Sale of subsidiary	(64)	–
Forfeited	(96)	(67)
Closing balance	1,322	1,248

33. SHARE-BASED PAYMENTS (continued)

Outstanding number of CSPs ('000) expected to vest as follows:

Grant date	Vest date	2017	2016
September 2013	September 2016	–	438
September 2014	September 2017	534	452
September 2015	September 2018	332	358
September 2016	September 2019	456	–
		1,322	1,248

The fair value of shares granted during the year was determined with reference to the listed share price at grant date of N$17.45 (2016: N$15.77) and taking into account a membership attrition of 5 % (2016: 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	
		2017 N$'000	2016 N$'000
34.1	**Credit risk reserve**		
	Balance at 1 July	185,261	167,869
	Transfer from retained earnings	12,389	17,392
	Balance as at 30 June	197,650	185,261
	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	27,773	28,617
	Transfer from retained earnings	22,763	–
	Utilisation of reserve	–	(844)
	Balance as at 30 June	50,536	27,773
	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.		
	Total non-distributable reserves	248,186	213,034

35. DISTRIBUTABLE RESERVES

	Group 2017 N$'000	Group 2016 N$'000	Company 2017 N$'000	Company 2016 N$'000
35.1 Fair value reserve				
Balance as at 1 July	129,782	96,317		
Revaluation of available-for-sale equity instruments	15,383	33,465		
Balance as at 30 June	145,165	129,782		
35.2 General banking reserve				
Balance as at 1 July	2,764,277	2,297,316		
Transfer from retained earnings	590,332	466,961		
Balance as at 30 June	3,354,609	2,764,277		
The general banking reserve is maintained to fund future expansion.				
35.3 Foreign currency translation reserve				
Balance as at 1 July	–	–		
Revaluation for the year	(873)	–		
Balance as at 30 June	(873)	–		
35.4 Retained earnings				
Balance as at 1 July	641,611	516,142	560,439	482,047
Profit for the year	909,429	905,048	258,364	376,507
Transfer to reserves	(625,484)	(484,353)	–	–
Profit on sale of treasury shares	269	–	–	–
Dividends paid	(329,516)	(295,226)	(333,485)	(298,115)
Acquisition of subsidiary	14,668	–	–	–
Change in ownership interest in subsidiary	(2,641)	–	–	–
Balance as at 30 June	608,336	641,611	485,318	560,439
35.5 Share-based compensation reserve				
Balance as at 1 July	13,290	7,062	8,166	7,062
Share-based payment charges recognised in equity	9,126	6,228	3,263	1,104
Vesting of shares	(6,122)	–	(1,136)	–
Balance as at 30 June	16,294	13,290	10,293	8,166

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); and
- the grant date fair value of conditional shares issued to employees (refer to note 33).

	Group 2017 N$'000	Group 2016 N$'000	Company 2017 N$'000	Company 2016 N$'000
Total distributable reserves	4,123,531	3,548,960	495,611	568,605

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

36. DIVIDENDS PER SHARE

Normal dividends amounting to N$333.5 million (2016: N$298.1 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 2017 N$'000	Group 2016 N$'000	Company 2017 N$'000	Company 2016 N$'000
Declared during the financial year				
Interim dividend per share (cents)			30	30
Declared after the financial year				
Final dividend per share (cents)*			38	36
Total dividend per share (cents)			68	66
Dividends declared during the year	329,516	295,226	333,485	298,115
Dividends paid during the year	(329,516)	(295,226)	(333,485)	(298,115)
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.

37. STATEMENT OF CASH FLOWS DISCLOSURE INFORMATION

	Group 2017 N$'000	Group 2016 N$'000	Company 2017 N$'000	Company 2016 N$'000
37.1 Receipts from customers				
Interest receipts	3,624,695	2,969,135	2,392	–
Commission and fee receipts	777,260	607,240	–	–
Other income received	189,426	344,986	47,778	89,769
	4,591,381	3,921,361	50,170	89,769
37.2 Payments to customers, suppliers and employees				
Interest payments	(1,551,167)	(1,181,303)	(1,685)	–
Cash payments to employees and suppliers	(1,308,366)	(1,134,057)	(74,952)	(91,492)
	(2,859,533)	(2,315,360)	(76,637)	(91,492)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

37. STATEMENT OF CASH FLOWS DISCLOSURE INFORMATION (continued)

	Group		Company	
	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'000
37.3 Cash generated from/(utilised in) operations				
Profit before income tax	1,273,873	1,269,542	258,364	379,380
Dividends received	(22,173)	(10,603)	(277,274)	(383,190)
Adjusted for non-cash items:				
– Effective interest on debt securities	236,581	194,753	16,242	5,641
– Effective interest on deposits	88,232	68,808	–	–
– Accrued interest on other borrowings	101,003	60,238	–	–
– Interest receivable	(3,951)	(3,374)	(15,512)	(4,149)
– Adjustment to fair value of financial instruments	2,479	31,921	(12,904)	–
– Amortisation of intangible assets	24,960	5,772	–	–
– Depreciation of property, plant and equipment	48,035	38,461	–	–
– Share-based payment expense	9,126	6,228	3,263	1,104
– Profit on sale of residential units	(2,531)	(12,810)	–	–
– Profit on sale of property, plant and equipment	(276)	(312)	–	–
– Loss on sale of subsidiary	3,309	–	4,127	–
– Impairment charges on loans and advances	57,998	60,779	–	–
– Provision for post-employment benefits	731	1,044	–	–
– Share of associates' results after tax	(78,100)	(97,123)	–	–
– Share of joint arrangements' results after tax	(1,094)	(1,405)	–	–
– Other	(6,354)	(5,918)	(2,773)	(509)
	1,731,848	1,606,001	(26,467)	(1,723)
In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:				
Net book value (note 23)	1,484	657	–	–
Profit on sale of property, plant and equipment (note 7.3)	276	312	–	–
Proceeds from sale of property, plant and equipment	1,760	969	–	–
37.4 Income taxes paid				
Amounts receivable/(payable) as at 1 July	58,376	(6,371)	578	515
Current tax charged to profit or loss	(349,028)	(350,709)	–	(2,873)
Acquisition of subsidiary	(27,142)	–	–	–
Sale of subsidiary	165	–	–	–
Taxes not yet received	4,951	509	685	509
Amount receivable as at 30 June	(71,780)	(58,376)	(685)	(578)
Income taxes paid during the year	(384,458)	(414,947)	578	(2,427)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

37. STATEMENT OF CASH FLOWS DISCLOSURE INFORMATION (continued)

	Group		Company	
	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'000
37.5 Proceeds on sale of subsidiary				
Cash consideration received	4,719	–	4,719	–
Subsidiary cash and cash equivalents sold	5,168	–	–	–
Net cash inflow on sale of subsidiary	9,887	–	4,719	–
37.6 Acquisition of subsidiaries				
Non-cash portion				
Acquisition by means of debt securities	197,172	–	197,172	–
Acquisition by means of equity	197,172	–	197,172	–
Acquisition by means of deferred consideration	22,361	–	22,361	–
	416,705	–	416,705	–
Cash portion				
Cash consideration paid	(48,992)	–	(48,992)	–
Subsidiary cash and cash equivalents acquired	1,111,650	–	–	–
Net cash in/(out) flow on acquisition of subsidiary	1,062,658	–	(48,992)	–
37.7 Non-cash financing activities				
Funding by means of debentures	395,322		395,322	

The debenture consists of N$197.2 million for financing of the acquisition of subsidiaries and N$198.1million for the intergroup debt consolidation.

38. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

	Group	
	2017 N$'000	2016 N$'000
38.1 Capital commitments		
Authorised but not contracted for:		
Property, plant and equipment	118,097	107,338
Intangible assets	183,116	132,458
Contracted for but not yet incurred:		
For completion of residential units – Ondangwa phase 2	–	7,652
For completion of residential units – Ondangwa phase 3	88,107	9,598
	389,320	257,046

Capital commitments for Ondangwa phase 2 and 3 relate to the development of residential units by Namib Bou (Pty) Ltd.

Funds to meet these commitments will be provided from group resources.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

38. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS (continued)

		Group 2017 N$'000	Group 2016 N$'000
38.2	**Letters of credit**	100,373	634,568
38.3	**Liabilities under guarantees**	1,495,326	1,450,178
	Guarantees mainly consist of endorsements and performance guarantees.		
38.4	**Loan commitments**	1,763,653	2,094,090
38.5	**Operating lease commitments**		
	Office premises		
	– Not later than 1 year	67,559	42,392
	– Later than 1 year but not later than 5 years	61,400	74,651
	– Later than 5 years	8,997	1,069
		137,956	118,112

Notice periods on operating lease contracts vary between 1 to 6 months (2016: 1 to 3 months), operating lease contracts are not fixed and escalation clauses range between 6 % and 12 % (2016: 7 % and 12 %).

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.

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 group basis.

39. CASH AND CASH EQUIVALENTS

	Group		Company	
	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'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)	868,274	905,572	140,643	155,057
Treasury bills and government stock with a maturity of less than 90 days	1,425,510	876,898	–	–
Money market investments (note 14)	1,116,990	229,677	203,580	141,547
Placement with other banks (note 16)	2,198,596	1,006,602	–	–
Borrowings from other banks (note 24)	(317,914)	(447,129)	–	–
	5,291,456	2,571,620	344,223	296,604

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

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); and
(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 40.7 % (2016: 55.0 %) owned by Capricorn Investment Holdings Ltd and 26 % owned by Government Institutions Pension Fund, its non-listed major shareholders, which is incorporated in Namibia.

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 impairment has been recognised in respect of loans granted to key management personnel during the year under review (2016: nil).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

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
Capricorn Investment Holdings (Botswana) Ltd	Subsidiary	Banking relationship
Bank Gaborone Ltd	Subsidiary	Support services Banking relationship
Capricorn Asset Management (Pty) Ltd	Subsidiary	Support services Banking relationship
Capricorn Capital (Pty) Ltd	Subsidiary	Support services Banking relationship
Capricorn Unit Trust Management Company Ltd	Subsidiary	Banking relationship
Cavmont Capital Holdings Zambia Plc	Subsidiary	Support services Banking relationship
Cavmont Bank Ltd	Subsidiary	Support services Banking relationship
Nam-mic Financial Services Holdings (Pty) Ltd	Fellow associate	Support services Banking relationship
Nam-mic Financial Solutions (Pty) Ltd	Fellow associate	Support services Banking relationship
Nam-mic Payment Solutions (Pty) Ltd	Fellow associate	Support services Banking relationship
Bank Windhoek Ltd	Subsidiary	Support services Banking relationship
Namib Bou (Pty) Ltd	Subsidiary	Support services Banking relationship
Santam Namibia Ltd	Associate	Dividends Banking relationship Insurance relationship
Sanlam Namibia Holdings (Pty) Ltd	Associate	Dividends Banking relationship Insurance relationship
Capricorn Asset Management (Botswana) (Pty) Ltd	Subsidiary	Banking relationship Support services
Bank Windhoek Properties (Pty) Ltd	Subsidiary	Rental
BW Finance (Pty) Ltd	Subsidiary	Support services Banking 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 ANNUAL FINANCIAL STATEMENTS (continued)

40. RELATED PARTIES (continued)

		Group		Company	
		2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'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	4,443	11,163	4,295	1,018
	Fellow subsidiaries	–	399	–	–
	Subsidiaries	–	–	24,683	3,962
	Other indirect related parties	49	11,571	49	10,684
40.2	**Loans and advances to related parties**				
	Other indirect related parties	–	46,478	–	–
	Key management personnel	47,367	26,911	–	–
40.3	**Cash and cash equivalents held by related parties**				
	Subsidiaries	–	–	140,639	155,053
40.4	**Preference shares advanced to related parties**				
	Subsidiaries	–	–	200,411	–
40.5	**Trade and other payables to related parties**				
	Major shareholders	7,086	8,628	–	–
	Subsidiaries	–	–	16,226	19,785
	Other indirect related parties	63	2,135	–	984
40.6	**Deposits from related parties**				
	Major shareholders	863,923	90,074	–	–
	Fellow subsidiaries	–	79,572	–	–
	Other indirect related parties	364,637	171,431	–	–
	Key management personnel	135,474	8,789	–	–
40.7	**Debt securities issued to related parties**				
	Major shareholders	1,715,447	–	907,327	–
	Other indirect related parties	25,142	25,142	25,142	25,142
40.8	**Expenses paid to related parties**				
	Subsidiaries	–	–	224	138
	Other indirect related parties	10,694	9,656	–	–

40. RELATED PARTIES (continued)

		Group		Company	
		2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'000
40.9	**Interest and similar expenses paid to related parties**				
	Major shareholders	34,247	9,588	16,184	–
	Fellow subsidiaries	–	696	–	–
	Other indirect related parties	28,174	8,282	–	–
	Key management personnel	719	525	–	–
40.10	**Income received from related party transactions**				
	Major shareholders	4,691	8,137	4,237	7,368
	Fellow subsidiaries	1,825	3,427	1,825	3,390
	Subsidiaries	–	–	34,460	57,663
	Other indirect related parties	16,341	52,910	16,309	21,578
	Income received from related party transactions mainly relates to insurance-related income and inter-group charges.				
40.11	**Interest and similar income received from related parties**				
	Major shareholders	9	9	–	–
	Fellow subsidiaries	–	1	–	–
	Subsidiaries	–	–	11,888	4,203
	Other indirect related parties	2,344	2,102	–	–
	Key management personnel	4,298	79	–	–
40.12	**Dividends received on ordinary shares from related parties**				
	Subsidiaries	–	–	177,718	292,994
	Other indirect related parties	79,729	81,983	79,729	81,983
40.13	**Compensation paid to key management**				
40.13.1	*Executive management team*				
	Salaries and bonuses	59,593	39,448	9,596	8,271
	Contribution to defined contribution medical schemes	1,372	1,506	251	334
	Contribution to defined contribution pension schemes	2,341	1,637	692	245
	Share-based payment charges	3,348	1,698	564	672
	Other allowances	7,596	5,155	1,424	818
		74,250	49,444	12,527	10,340

The increase in compensation paid to key management is mainly due to the acquisition of CIHB and CCHZ.

Compensation paid to key management comprises remuneration and other employee benefits to the executive management team, which excludes executive directors' emoluments.

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 2017			
Non-executive directors			
Brandt, J C (Chairman)	1,008	1,044	2,052
Swanepoel, J J (Vice-chairman)	401	935	1,336
Black, K B	256	145	401
Nakazibwe-Sekandi, G	241	186	427
Du Toit, F J	487	365	852
Shaetonhodi, J M	161	–	161
Shikongo, M K	161	186	347
Schimming-Chase, E M	169	–	169
Fourie, D G	511	594	1,105
Total	3,395	3,455	6,850
30 June 2016			
Non-executive directors			
Brandt, J C (Chairman)	780	1,203	1,983
Swanepoel, J J (Vice-chairman)	379	817	1,196
Black, K B	227	100	327
Nakazibwe-Sekandi, G	269	209	478
Du Toit, F J	567	286	853
Shaetonhodi, J M	154	52	206
Shikongo, M K	136	157	293
Schimming-Chase, E M	106	–	106
Knouwds, E	146	86	232
Fourie, D G	345	313	658
Total	3,109	3,223	6,332

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 2017 and 2016 financial years.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

40. RELATED PARTIES (continued)

40.13 Compensation paid to key management (continued)

40.13.3 Executive directors' emoluments

	Salary and bonuses N$'000	Pension and medical contributions N$'000	Share-based payment benefit N$'000	Other allowances and fringe benefits N$'000	Total N$'000
30 June 2017					
Executive directors					
Prinsloo, M J	4,206	221	–	894	5,321
	4,206	221	–	894	5,321
30 June 2016					
Executive directors					
De Vries, C P	5,478	89	211	485	6,263
Prinsloo, M J	3,004	205	–	893	4,102
	8,482	294	211	1,378	10,365

The executive directors did not receive any other fees for services as directors or any emoluments other than that disclosed. No SARs and CSPs were awarded to executive directors during the current financial year.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

40. RELATED PARTIES (continued)

40.14 Directors' holdings in Capricorn Group shares

	2017			2016	
	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					
Brandt, J C (Chairman)	(3,290,700)	–	0.00	3,290,700	0.65
Black, K B	–	38,636	0.01	38,636	0.01
Nakazibwe-Sekandi, G	(75,000)	1,795,784	0.35	1,870,784	0.37
Shaetonhodi, J M	–	70,300	0.01	70,300	0.01
Shikongo, M K	–	82,000	0.02	82,000	0.02
Prinsloo, M J[1]	–	2,184,684	0.42	1,869,084	0.37
Schimming-Chase, E M	–	1,200	0.00	1,200	0.00
du Toit, F J	–	13,500	0.00	13,500	0.00
Fourie, D G	–	35,700	0.01	35,700	0.01
Indirect holding					
Brandt, J C (Chairman)			20.96		34.83
Swanepoel, J J (Vice chairman)			4.21		7.43
Prinsloo, M J			0.14		0.13

[1] Movement due to maturing of shares under the share purchase scheme.

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.

41. ASSETS UNDER CUSTODY

As at year-end, the group has no assets under custody (2016: N$6.5 million).

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. During the 2017 financial year, the group provided financial support of N$23.9 million (2016: N$2.6 million) to the Capricorn Group Employee Share Ownership Trust.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

43. SEGMENT INFORMATION

The group considers its banking operations in Namibia and Botswana as two operating segments. Other components include property development, asset management, unit trust management and the Zambian banking operations. However, these components each contribute less than 5 % 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 managing director 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 managing director 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.

43.1 Entity-wide disclosures

43.1.1 Products and services

Operating segments

Banking operations – Namibia

Banking operations – Botswana

Brand

Bank Windhoek

Bank Gaborone

Description

Corporate and executive banking, retail banking services and specialist finance.

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.

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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENT (continued)

43. SEGMENT INFORMATION (continued)

43.2 Financial information

	Banking – Namibia		Banking – Botswana		Other		Group	
	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'000
Net interest income – external	1,499,254	1,458,142	116,728	–	33,515	–	1,649,497	1,458,142
Net interest income – internal	(12,592)	(7,193)	–	–	12,592	7,193	–	–
Impairment charges on loans and advances	(46,572)	(60,779)	(10,467)	–	(959)	–	(57,998)	(60,779)
Net interest income after loan impairment charges	1,440,090	1,390,170	106,261	–	45,148	7,193	1,591,499	1,397,363
Non-interest income	798,868	769,594	28,073	–	171,244	184,210	998,185	953,804
Operating income	2,238,958	2,159,764	134,334	–	216,392	191,403	2,589,684	2,351,167
Operating expenses	(1,131,523)	(1,061,417)	(90,914)	–	(172,568)	(118,736)	(1,395,005)	(1,180,153)
Operating profit	1,107,435	1,098,347	43,420	–	43,824	72,667	1,194,679	1,171,014
Share of joint arrangement and associates' results after tax	1,094	1,405	–	–	78,100	97,123	79,194	98,528
Profit before income tax	1,108,529	1,099,752	43,420	–	121,924	169,790	1,273,873	1,269,542
Income tax expense	(333,096)	(336,848)	(5,831)	–	(17,325)	(27,646)	(356,252)	(364,494)
Profit for the year	775,433	762,904	37,589	–	104,599	142,144	917,621	905,048
Change in value of available-for-sale financial assets	15,383	33,465	–	–	–	–	15,383	33,465
Exchange differences on translation of foreign operations	–	–	–	–	(1,949)	–	(1,949)	–
Total comprehensive income	790,816	796,369	37,589	–	102,650	142,144	931,055	938,513

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

43. SEGMENT INFORMATION (continued)
43.2 Financial information (continued)

	Banking – Namibia		Banking – Botswana		Other		Group	
	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'000
ASSETS								
Cash and balances with the central bank	1,083,165	1,169,086	245,944	–	213,961	84	1,543,070	1,169,170
Financial assets designated at fair value through profit or loss	3,058,347	2,239,212	382,263	–	528,025	168,984	3,968,635	2,408,196
Financial assets at amortised cost	41,621	–	–	–	258,066	–	299,687	–
Investment securities	149,381	133,998	–	–	–	–	149,381	133,998
Due from other banks	860,615	1,006,602	1,206,070	–	131,911	–	2,198,596	1,006,602
Loans and advances to customers	28,507,718	26,598,023	4,092,664	–	833,540	–	33,433,922	26,598,023
Other assets	240,091	250,601	34,593	–	175,581	89,929	450,265	340,530
Current tax asset	54,842	59,552	676	–	16,902	625	72,420	60,177
Investment in associates	–	–	–	–	245,782	248,297	245,782	248,297
Interest in joint arrangements	6,193	5,099	–	–	–	–	6,193	5,099
Intangible assets	197,648	148,156	31,493	–	62,539	50,889	291,680	199,045
Property, plant and equipment	171,417	155,126	21,867	–	39,524	3,127	232,808	158,253
Deferred tax asset	–	2,685	608	–	27,867	3,578	28,475	6,263
Total assets	34,371,038	31,768,140	6,016,178	–	2,533,698	565,513	42,920,914	32,333,653
LIABILITIES								
Due to other banks	140,611	447,129	32,976	–	144,327	–	317,914	447,129
Other borrowings	1,165,064	1,164,051	–	–	–	–	1,165,064	1,164,051
Debt securities in issue	3,031,181	2,190,203	270,632	–	803,764	25,142	4,105,577	2,215,345
Deposits	25,420,775	23,862,500	5,067,999	–	1,082,787	(138,372)	31,571,561	23,724,128
Other liabilities	294,270	444,674	164,404	–	76,370	53,026	535,044	497,700
Current tax liability	–	–	–	–	640	1,801	640	1,801
Deferred tax liability	4,008	–	–	–	–	–	4,008	–
Post-employment benefits	10,191	9,460	–	–	–	–	10,191	9,460
Total liabilities	30,066,100	28,118,017	5,536,011	–	2,107,888	(58,403)	37,709,999	28,059,614

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

43. SEGMENT INFORMATION (continued)
43.2 Financial information (continued)

	Banking – Namibia		Banking – Botswana		Other		Group	
	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'000	2017 N$'000	2016 N$'000
EQUITY								
Share capital and premium	485,000	485,000	318,858	–	(119,193)	27,045	684,665	512,045
Non-distributable reserves	248,186	213,034	–	–	–	–	248,186	213,034
Distributable reserves	3,571,752	2,952,089	161,309	–	390,470	596,871	4,123,531	3,548,960
	4,304,938	3,650,123	480,167	–	271,277	623,916	5,056,382	4,274,039
Non-controlling interests in equity	–	–	–	–	154,533	–	154,533	–
Total shareholders' equity	4,304,938	3,650,123	480,167	–	425,810	623,916	5,210,915	4,274,039
Total equity and liabilities	34,371,038	31,768,140	6,016,178	–	2,533,698	565,513	42,920,914	32,333,653

44. COMMON CONTROL TRANSACTIONS

Acquisition of Capricorn Investment Holdings (Botswana) Ltd (CIHB)

The group acquired a controlling interest in Capricorn Investment Holdings (Botswana) Ltd (CIHB), an investment holding company, which owns 100 % of the share capital of Bank Gaborone Ltd. The shares were acquired from Capricorn Investment Holdings Ltd (CIH) (65 %) for a consideration of N$332.9 million. The effective date of the transaction is 1 January 2017.

After date of control Capricorn Group purchased an additional 3.7 % interest in CIHB from minority shareholders for N$20.4 million (P15.9 million) effective 1 June 2017, increasing its shareholding to 68.7 % and accounted for as an equity transaction with non-controlling interest (NCI).

Acquisition of Cavmont Capital Holdings Zambia Plc (CCHZ)

The group acquired 49.8 % of the share capital of Cavmont Capital Holdings Zambia Plc (CCHZ), an investment holding company, which owns 100 % of the share capital of Cavmont Bank Ltd, for a consideration of N$57.2 million. The shares were acquired from CIH (24.9 %) and NCI (24.9 %). The effective date of the transaction is 1 January 2017.

Acquisition of Mukumbi Investments Ltd (Mukumbi)

The group acquired 100 % of the share capital of Mukumbi Investments Ltd (Mukumbi), an investment holding company, which owns 48.1 % of the share capital of CCHZ, for a consideration of N$55.2 million. The shares were acquired from CIH. The effective date of the transaction is 1 January 2017.

Acquisition of Capricorn Capital (Pty) Ltd

The group acquired 100 % of the share capital of Capricorn Capital (Pty) Ltd (CAP), for a consideration of N$163.2 thousand. The shares were acquired from CIH. The effective date of the transaction is 31 March 2017.

The acquisition of controlling interests in the above entities are classified as common control transactions as the combining entities were ultimately controlled by the same party (CIH), both before and after the business combination, and the control is not transitory. Predecessor accounting has been applied, where the acquirees' net assets are recognised at carrying value in the acquiring company, Capricorn Investment Group Ltd. Profits or losses from CIHB, CCHZ, Mukumbi and CAP have been included in the group from the date of acquisition of control.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

44. COMMON CONTROL TRANSACTIONS (continued)

	Group 2017 N$'000
Capricorn Investment Holdings (Botswana) Ltd (CIHB)	
Consideration at 1 January 2017:	
Consideration	(332,937)
Total consideration transferred	(332,937)
Carrying value of net assets attributable to equity holders of the group at date of acquisition of control	299,064
Recognised directly in equity	(33,873)
Cavmont Capital Holdings Zambia Plc (CCHZ)	
Consideration at 1 January 2017:	
Consideration	(57,170)
Total consideration transferred	(57,170)
Carrying value of net assets attributable to equity holders of the group at date of acquisition of control	83,503
Recognised directly in equity	26,333
Mukumbi Investments Ltd	
Consideration at 1 January 2017:	
Consideration	(55,182)
Total consideration transferred	(55,182)
Carrying value of net assets at date of acquisition of control	77,390
Recognised directly in equity	22,208
Capricorn Capital (Pty) Ltd	
Consideration at 31 March 2017:	
Consideration	163
Total consideration transferred	163
Carrying value of net assets at date of acquisition of control	163

45. DISPOSAL OF INVESTMENT IN SUBSIDIARY

On 1 July 2016, Capricorn Investment Group Ltd disposed of its 100 % interest in its subsidiary, Welwitschia Insurance Brokers (Pty) Ltd for a consideration of N$4.7 million.

	Group 2017 N$'000	Company 2017 N$'000
Net loss from the sale of 100 % investment in subsidiary	3,309	4,127

The loss on sale of subsidiary is included in operating expenses in the statement of comprehensive income (note 9).

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 profiles 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.

GENERAL BANKING RESERVE
The prescribed minimum impairment by the Bank of Namibia on performing loans and advances. Allocations to this reserve are made from after-tax retained earnings.

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 divided by average total assets.

RETURN ON AVERAGE SHAREHOLDERS' EQUITY (ROE) (%)
Group profit for the year attributable to the equity holders of the parent entity divided by average total shareholders' equity excluding NCI.

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).

Notice of annual general meeting

Notice is hereby given that the 21st Annual General Meeting of the shareholders of Capricorn Investment Group Limited ("Capricorn Group" or "the company") will be held in the boardroom on the sixth floor of the Capricorn Group Building, Kasino Street, Windhoek, on Tuesday, 31 October 2017 at 16h00 for the following purposes:

Agenda:

1. To consider and, if approved, adopt the group and company annual financial statements for the year ended 30 June 2017.
2. To confirm the ordinary dividends of 68 cents per share (2016: 66 cents per share) amounting to N$348.0 million.
3. To consider and, if accepted, approve by a non-binding advisory vote the remuneration policy set out in the Remuneration Report on pages 71 to 74.
4. To consider and, if accepted, approve the remuneration of the non-executive directors for the financial year ending 30 June 2018:

	N$ annual retainer	N$ attendance per meeting	No. of meetings
Board of directors	93,600	14,100	4
Board executive committee	16,000	6,375	10
Board audit, risk and compliance committee	32,000	16,575	4
Group board remuneration committee	8,000	6,400	4
Group board nominations committee	8,000	3,825	4
Group board human resources committee	16,000	7,650	4
Group board investment committee	16,000	ad hoc	
Group board sustainability and ethics committee	16,000	8,925	4
Group board information technology committee	16,000	22,950	4

A 75% premium is paid to the chairman of each of the committees. The annual fee for the non-executive chairman of Capricorn Group is N$1,900,000.

5. To appoint Messrs PricewaterhouseCoopers as auditor for the new financial year.
6. To authorise the directors to determine the remuneration of the auditor.
7. To elect directors in place of Messrs K B Black, J M Shaetonhodi and J J Swanepoel, who retire by rotation but, being eligible, avail themselves for re-election. Abbreviated CVs of the directors are set out on pages 64 to 67 of the integrated annual report.
8. To confirm the appointment of Mr Dirk J Reyneke as independent non-executive director. Mr Reyneke (55) holds BCom and BCompt (Honours) degrees as well as a Diploma in Advanced Banking. He qualified as a Chartered Accountant in 1988 with EY (formerly Ernst & Young) where he was a partner for 14 years, including Partner – Gauteng Financial Services Group (FSG) and Partner – Gauteng Head of Banking. In 2006 he joined Absa Retail Bank as CFO. Other positions at Absa include Head of Finance and Operations and Chief Operating Officer. Since 2012 Dirk is employed by Telkom, where he is now Head of Integration tasked with the integration of Telkom Enterprise and Business Connexion.
9. To grant the directors, in terms of the provisions of section 229 of the Companies Act, a general authority to allot and issue the authorised but unissued ordinary shares of the company, upon such terms and conditions as they deem fit, subject to the provisions of the Banking Institutions Act and the Listing Requirements of the NSX.
10. To grant the directors, in terms of the provisions of section 229 of the Companies Act, a general authority to allot and issue the authorised but unissued preference shares of the company, upon such terms and conditions as they deem fit, subject to the provisions of the Banking Institutions Act and the Listing Requirements of the NSX.
11. To transact such other business as may be transacted at an annual general meeting.

Voting:

All holders of Capricorn Group shares will be entitled to attend and vote at the annual general meeting. On a show of hands, every holder of Capricorn Group shares who is present in person or, in the case of a company, the representative appointed in terms of section 196 of the Companies Act, shall have one vote. On a poll, the holders of ordinary shares present in person or by proxy will each be entitled to one vote for every ordinary share held.

Proxies:

A shareholder qualified to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend, speak and, on a poll, vote in his/her stead. A proxy need not also be a shareholder of the company.

In order to be effective, duly completed proxy forms must be delivered or posted to the company's transfer secretaries, Transfer Secretaries (Pty) Ltd, 4 Robert Mugabe Avenue (entrance on Burg Street), Windhoek (PO Box 2401, Windhoek, Namibia) to reach this address not less than 48 hours prior to the meeting.

By order of the board
H von Ludwiger, *Company secretary*
Windhoek, 5 September 2017

Proxy form

I/we (full names) ______________________

being a holder of __________ shares in Capricorn Investment Group Limited (the company),

hereby appoint (name) ______________________

or failing him/her (name) ______________________

or failing him/her the chairman of the meeting, as my/our proxy to attend, speak and vote on a show of hands or on a poll, for me and on my/our behalf at the annual general meeting of the company to be held on 31 October 2017 and at any adjournment thereof, in particular to vote as indicated below on the resolutions contained in the notice of the meeting:

Please indicate by inserting an "X" in the appropriate block (either "for", "against" or "abstain"). If no indication is given, the proxy may vote as he/she deems fit.

I/we desire as follows:

Item	Description	For	Against	Abstain
1	Adoption of the annual financial statements			
2	Confirmation of dividends			
3	Approve the remuneration policy			
4	Approve the remuneration of the non-executive directors for the next financial year			
5	Re-appoint PricewaterhouseCoopers as auditor			
6	Authorise directors to determine the auditor's remuneration			
7.1	Re-elect retiring director: Mr K B Black			
7.2	Re-elect retiring director: Mr J M Shaetonhodi			
7.3	Re-elect retiring director: Mr J J Swanepoel			
8	Confirm the appointment of Mr D J Reyneke			
9	General authority to the directors to allot and issue ordinary shares			
10	General authority to the directors to allot and issue preference shares			

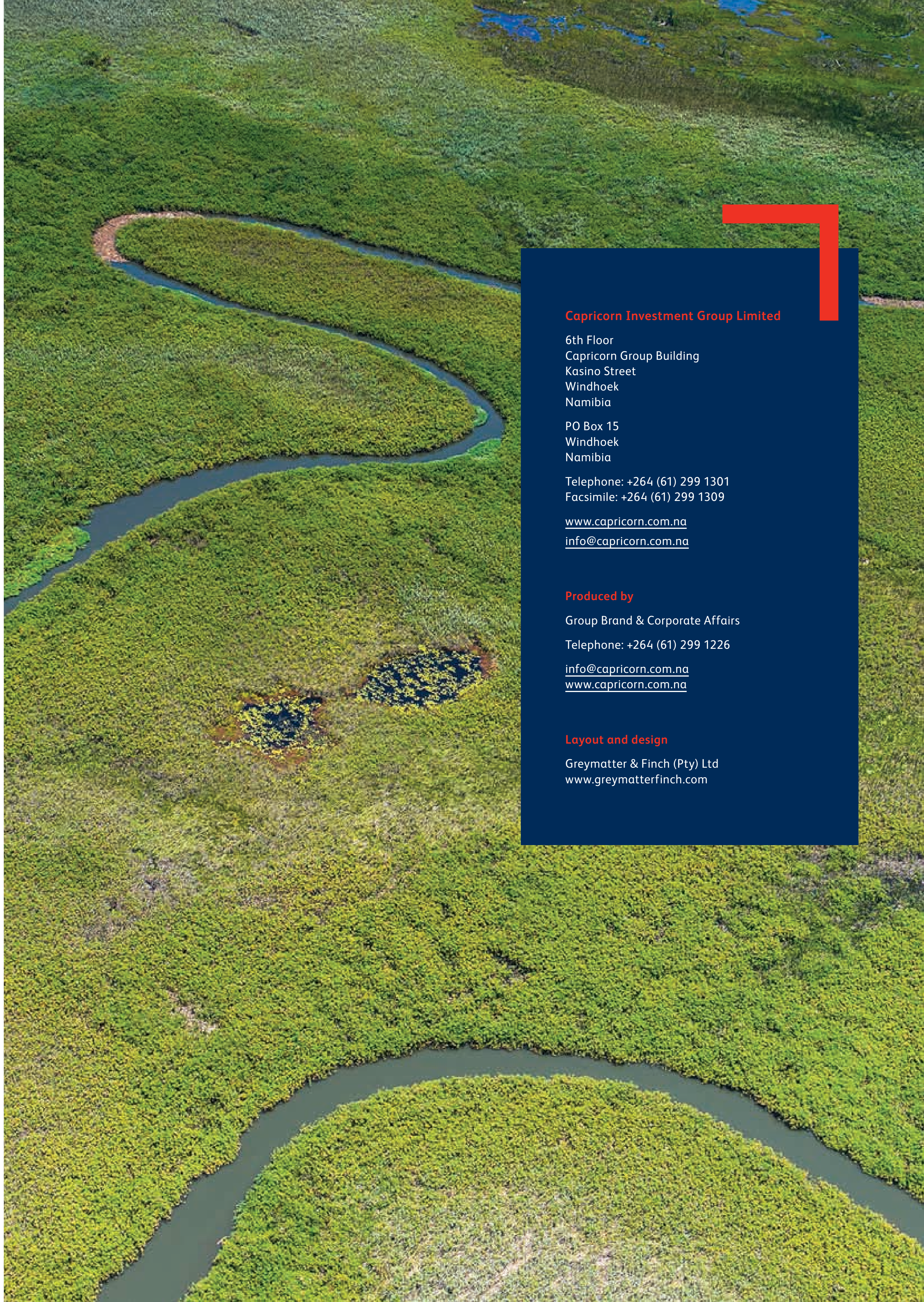
Signed at ____________ on this ____________ day of ____________ 2017

Signature ____________________

(A shareholder entitled to attend and vote at a meeting shall be entitled to appoint a proxy or proxies to attend, speak and vote in his stead. A proxy need not be a shareholder of the company.)

PROXY FORM (continued)

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space(s) provided, with or without deleting "the chairman of the annual general meeting", but any such deletion must be initialled by the shareholder. The person whose name stands first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. Please insert an "X" in the relevant spaces according to how you wish your votes to be cast. However, if you wish to cast your votes in respect of a lesser number of shares than you own in the company, insert the number of ordinary shares held in respect of which you wish to vote. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of the shareholder's votes exercisable thereat. A shareholder or the proxy is not obliged to use all the votes exercisable by the shareholder or by the proxy, but the total of the votes cast and in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by the proxy.
3. Forms of proxy must be received at the company's transfer secretaries, Transfer Secretaries (Pty) Ltd, 4 Robert Mugabe Avenue (entrance on Burg Street), Windhoek (PO Box 2401 Windhoek), Namibia not less than 48 hours prior to the meeting. Alternatively, forms of proxy may be sent to the company's transfer secretaries by way of telefax +264 (61) 248531, provided that such telefaxes are received by the transfer secretaries not less than 48 hours prior to the meeting.
4. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.
5. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company's transfer secretaries or waived by the chairman of the annual general meeting.
6. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.
7. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries of the company.
8. The chairman of the annual general meeting may reject or accept a form of proxy, which is completed and/or received other than in accordance with these notes, if the chairman is satisfied as to the manner in which the shareholder wishes to vote.
9. Where there are joint holders of ordinary shares:
   i. any one holder may sign the form of proxy; or
   ii. the vote of the senior (for that purpose seniority will be determined by the order in which the names of the shareholders appear in Capricorn Investment Group Limited's register of shareholders) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholder(s).



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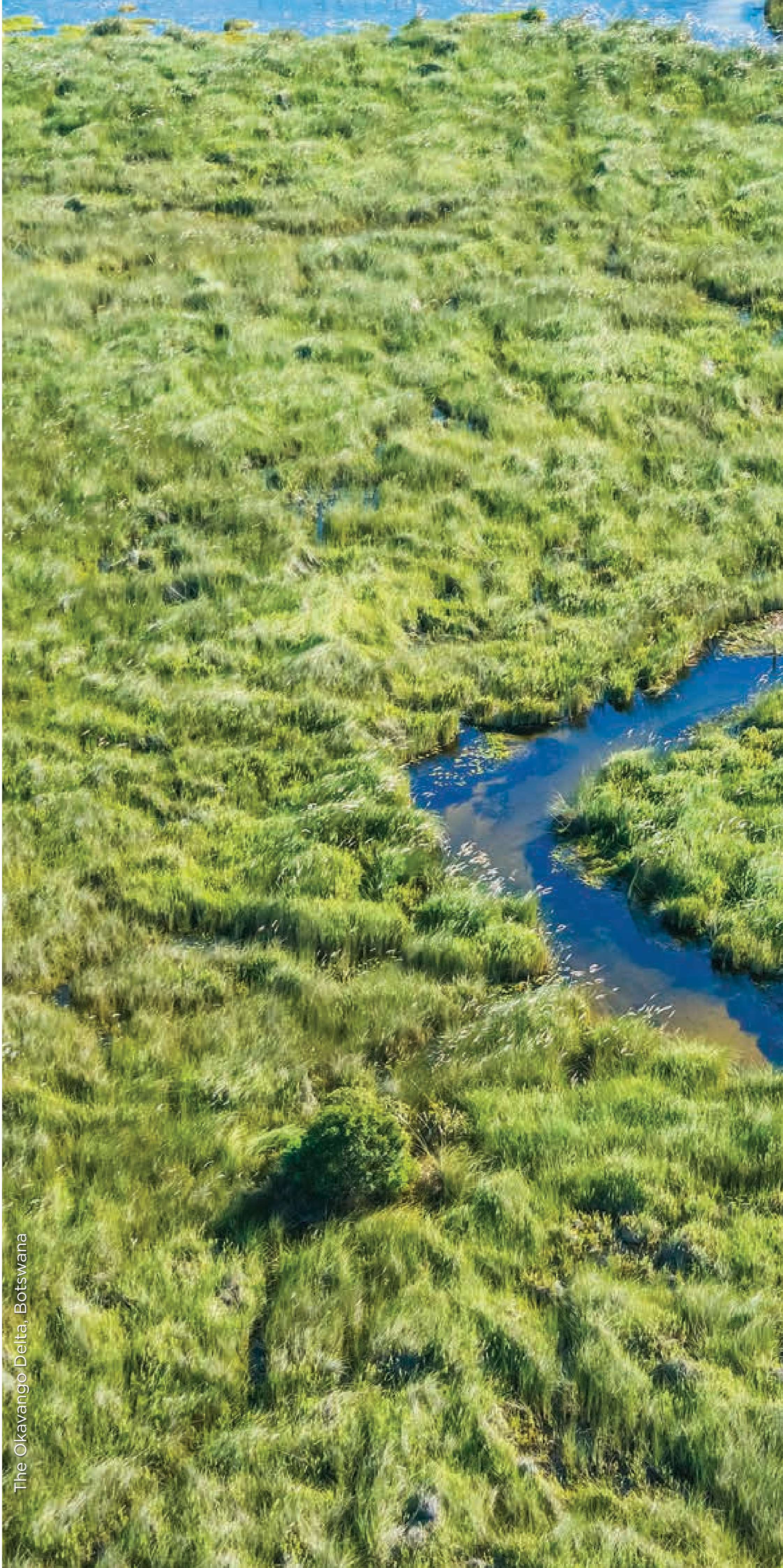

The Okavango Delta, Botswana