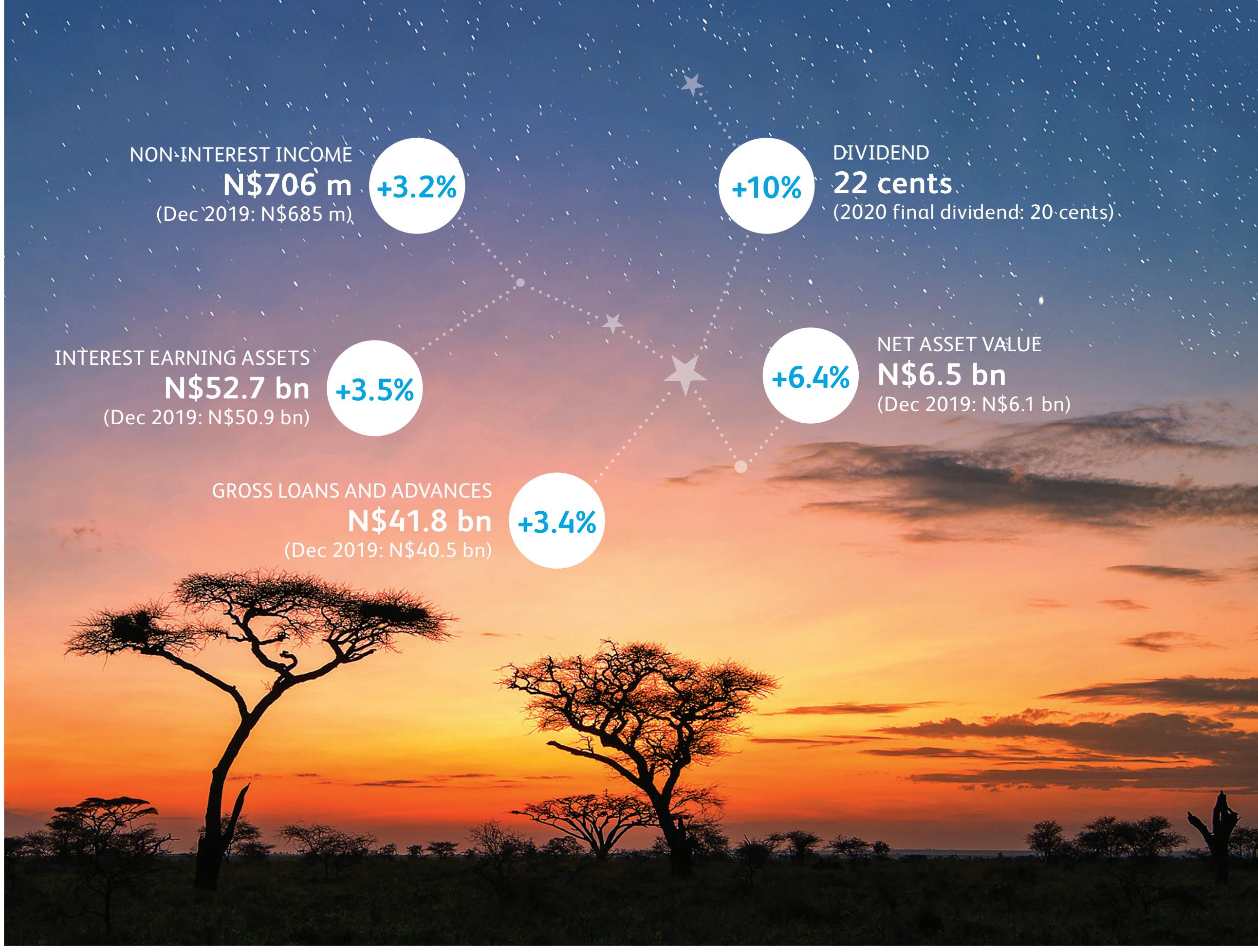
Capricorn Group

INTERIM RESULTS

for the six months ended 31 December 2020



FACING THE COVID-19 CHALLENGES

- Capricorn Group ("the Group") met the challenges of the COVID-19 pandemic head-on. The agility and quick decision-making within the Group allowed it to quickly sense and respond to ever changing challenges. During this time, the Group managed to provide financial relief to our clients and job security to our employees, while implementing strategies to ensure the sustainability of the Capricorn Group.
- The Group's profit from continuing operations decreased by N$118.8 million, (20.2%) relative to the pre-COVID comparable period. This year-on-year decrease is mainly due to interest margin compression and increased impairment provisions. Lower interest margins are a result of unprecedented interest rate decreases enacted by central banks to counter the slowdown in the economy. Increased impairment provisions resulted from the extremely challenging economic and market conditions in the wake of imposed lockdowns and other responses to the pandemic.
- As previously reported, the sale of Cavmont Bank Ltd was concluded on 4 January 2021. Consequently, the losses made by Cavmont Bank Ltd in the current and prior reporting periods are disclosed under discontinued operations.
- The review of the Group financial performance below is based on the results of continuing operations.

GROUP FINANCIAL PERFORMANCE

- **Net interest income** and interest margins were negatively impacted during 2020 following significant interest rate cuts of 275 basis points by Bank of Namibia and 100 basis points by Bank of Botswana. Despite the interest rate cuts, net interest margin reductions of Bank Windhoek and Bank Gaborone were well contained at only 0.53% and 0.38% year-on-year respectively. This was achieved mainly through effective management of cost of funding. Entrepo had seen a growth of 26.9% in net interest income. On a consolidated level, net interest income before impairment charges decreased by 6.8% year-on-year mainly as a result of reduced margins.
- **Impairment charges** increased to N$155.6 million. This is a direct result of the economic impact of the COVID-19 pandemic during the period under review compared to comparable period before the pandemic. Given the current uncertainty, the Group applied a prudent forward-looking approach, consistent with the requirements of IFRS 9, in determining expected credit losses in the challenging current economic conditions.
- **Non-interest income** increased by 3.2% year-on-year despite the difficult operating environment and the material impact of the COVID-19 preventative regulations on financial activities across the regions where we operate. Growth was mainly attributable to a 5.6% increase in income from electronic channels and asset management fee income increasing by 13.0% to N$77.4 million. This achievement highlights the positive impact of the Group's diversification strategy in cushioning the impact of the steep interest rate cuts experienced. Growth in income from electronic channels and asset management fees were offset by a decline of 22.7% in trading revenue.
- Roughly 80% of the Group's operating expenses are fixed and could not be adjusted in line with lower expected income since the onset of the pandemic. In addition, a significant part of the Group's technology costs, which increased by 21.5% year-on-year, are denominated in US dollar and was severely impacted by a weakening of the Namibian dollar against the US dollar. Despite these shocks, the Group contained the increase in **operating expenses** to 2.4%. This bears testimony to the Group's ability to contain costs during adverse economic conditions such as the COVID-19 pandemic.
- **Income from associates** increased by 34.5% year-on-year, mainly attributable to the additional contribution from the Paratus Group in the current year.

STATEMENT OF FINANCIAL POSITION

- The Group managed liquidity prudently in line with the Group's philosophy of liquidity taking preference over profit maximisation. Capricorn Group's **liquidity** position remained healthy since the outbreak of the global pandemic, as reflected by a 7.1% increase in the Group's liquid assets year-on-year.
- **Gross loans and advances** increased by 1.8% to N$41.8 billion during the six months ended 31 December 2020. Bank Windhoek's gross loans and advances increased by 4.8% to N$34.7 billion during this period, exceeding annualised private sector credit extension growth of 2.0%. The growth was mainly attributable to commercial loans, overdrafts and mortgage loans reflecting the bank supported the local economy. Bank Gaborone increased gross loans and advances by 2.3% to BWP4.8 billion, but due to a deterioration of the Botswana Pula, its loans and advances decreased by 4.7% in Namibian dollar terms. Entrepo's loan book increased by 10.6%.
- Asset quality remained a key focus area for the Group. However, the challenging economic environment, exacerbated by the impact of the pandemic, has had a negative impact on the Group's total **non-performing loans (NPLs)**, which increased by 12.7% to N$2.2 billion during the current period. The Group's NPL ratio increased from 4.7% to 5.2%. Due to the significant increase in provision for expected credit losses the NPL coverage ratio increased to 53.2% (December 2019: 44.8%).
- The Group remains well capitalised with a total risk-based capital adequacy ratio of 14.1%, well above the minimum regulatory capital requirement of 10.0%. The strong **capital** position will stand the Group in good stead while navigating the perfect storm brought about by the COVID-19 economic shock.

OUTLOOK

The forecasted contraction of the economies in Namibia and Botswana of 8.4% and 6.0% for 2020 effectively puts GDPs of these countries back to levels reported for 2015. Notwithstanding the forecast of modest economic growth for 2021 from this reduced base, the Group's economic outlook remains fairly bleak. As a result, we expect the increase in customer defaults to continue, with impairment charges remaining high and interest rates remaining at the current all-time lows. The negative financial impact of these factors is expected to be offset by growth in non-interest income largely from our non-banking subsidiaries and associates which were not as negatively impacted by the pandemic. The disposal of our loss-making operations in Zambia is expected to have a material positive impact on the profitability of the Group going forward.

INTERIM DIVIDEND

The Group declared an interim dividend of 22 cents per ordinary share. The interim dividend per share for the period under review is 10% higher than the final dividend per share of 20 cents declared during September 2020. The Group believes that the interim dividend balances prudency, in preserving the Group's capital and liquid asset position, with a fair dividend yield for shareholders, whose earnings came under severe pressure since the onslaught of the global pandemic and depressed economic conditions.

- Last day to trade cum dividend: 12 March 2021
- First day to trade ex-dividend: 15 March 2021
- Record date: 19 March 2021
- Payment date: 31 March 2021

	Six months ended 31 Dec 2020 (reviewed) N$'000	Six months ended 31 Dec 2019 (restated)* (reviewed) N$'000	% Change	Year ended 30 June 2020 (audited) N$'000
EXTRACT OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME				
Net interest income	**1,012,208**	1,086,460	(6.8)	2,080,899
Impairment charges	**(155,615)**	(54,296)	186.6	(304,371)
Net interest income after loan impairment charges	**856,593**	1,032,164	(17.0)	1,776,528
Non-interest income	**706,382**	684,573	3.2	1,424,711
Operating expenses	**(986,029)**	(963,373)	2.4	(1,900,877)
Operating profit	**576,946**	753,364	(23.4)	1,300,362
Share of joint arrangements and associates results after tax	**55,013**	42,750	28.7	66,528
Profit before tax	**631,959**	796,114	(20.6)	1,366,890
Income tax expense	**(162,901)**	(208,261)	(21.8)	(354,795)
Profit from continuing operations	**469,058**	587,853	(20.2)	1,012,095
Loss from discontinued operations	**(40,916)**	(30,628)	33.6	(155,683)
Profit for the period	**428,142**	557,225	(23.2)	856,412
Profit attributable to ordinary shareholders	**379,385**	509,661	(25.6)	760,973
EXTRACT OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION				
Cash and balances with central bank	**1,762,050**	1,247,283	41.3	909,117
Other financial assets	**10,174,820**	9,901,164	2.8	11,797,250
Loans and advances to customers	**40,725,412**	39,715,279	2.5	40,078,622
Other assets	**3,558,110**	2,042,604	74.2	3,553,137
Total assets	**56,220,392**	52,906,330	6.3	56,338,126
Capital and reserves attributable to ordinary shareholders	**6,525,494**	6,131,308	6.4	6,308,105
Non-controlling interest	**452,331**	378,836	19.4	421,959
Deposits	**40,800,656**	37,924,064	7.6	39,323,264
Other funding	**6,213,844**	7,597,749	(18.2)	7,472,936
Other liabilities	**2,228,067**	874,373	154.8	2,811,862
Total equity and liabilities	**56,220,392**	52,906,330	6.3	56,338,126
Net asset value per share (cents)	**1,266**	1,197		1,232
Basic earnings per share (cents)	**73.6**	99.5		148.6
Headline earnings per share (cents)	**76.5**	99.5		157.2

* *Restated to account for loss of discontinued operations separately as per the requirements of IFRS 5.*

OTHER DISCLOSABLE INFORMATION

ADDRESS

Postal address: P.O. Box 15, Windhoek, Namibia; Registered address:
Capricorn Group Building, Kasino Street, Windhoek, Namibia
Tel: +264 (61) 299 1301; Fax: +264 (61) 299 1309
Email: investors@capricorn.com.na; Sponsor: PSG Wealth Management (Namibia) (Pty) Ltd Member of the Namibian Stock Exchange
(Incorporated in the Republic of Namibia)
(Date of Registration: 5 September 1996)
(Registration Number: 96/300)
Share code: CGP ISIN: NA000A1T6SV9

BOARD OF DIRECTORS

Non-executive directors: J J Swanepoel (chairman), D G Fourie (lead independent director), J C Brandt, H M Gaomab II, G Menetté, D J Reyneke*, E Schimming-Chase, G N Sekandi**, E Solomon*

Executive directors: M J Prinsloo* (Group chief executive officer), J J Esterhuyse* (financial director)

* *South African*
** *Ugandan*

BASIS OF PRESENTATION

The reviewed condensed consolidated interim financial statements of Capricorn Group Ltd for the six months ended 31 December 2020, from which this information is derived, have been prepared in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting and the requirements of the Companies Act of Namibia, 28 of 2004. This results announcement is the responsibility of the directors, and is extracted from the reviewed condensed consolidated interim financial statements, but is not itself reviewed or audited.

www.capricorn.com.na

DETAILS FOR QR CODE

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