IJG

Securities (Pty) Ltd.

Member of the NSX

BANK WINDHOEK HOLDINGS

1H15 Results Review

APRIL 2015

Bank Windhoek Holdings

1H15 Results Review

Target Price (c)	1620
Current Price (c)	1520

Year End 30 June	2013A	2014A	F2015	F2016	F2017
Net interest income (N$m)	914	1,057	1,207	1,364	1,478
Non-interest income (N$m)	523	680	761	853	955
Profit (N$m)	493	625	698	803	889
HEPS (c)	109	121	139	160	177
P/E (x)#	13.9	12.6	10.9	9.5	8.6
DPS (c)	33	44	50	58	66
DY (%)*	2.2	2.9	3.3	3.8	4.3
P/B (x)*	2.9	2.5	2.2	1.9	1.7

Recommendation	HOLD
NSX Code	BWH
Market Cap (N$m)	7680
Shares in Issue (m)	505.3
Free float (%)	20
52 week high (c)	1525
52 week low (c)	1065
Expected Total Return (%)	9.7

Source: BWH, IJG
#Based on HEPS and current share price
**Based on current share price*

BWH released its results for first half of the year ended 31 December 2014. The firm continued to register good growth, in line with its highly consistent performance of the past five years. Operating profit expanded by 20.2% year on year, driving strong expansion in headline earnings per share of 17.5%, towards the top of the guidance range of 14 - 19%. Headline earnings now stand at N$360.7m or 71.9 cents per share. On the back of the stellar performance of the company, a dividend of 24cps was declared, up 1c from the same period of 2013.

Net interest income added 15.1% to N$601.5m on the back of 18.2% growth loans and advances to customers. The group maintained a net interest margin of 5.0%, and continues to pursue a strategy to diversify its sources of funding and extend the maturity profile of its funding. The major growth in loans and advances seen over the year exceeds the growth seen in total private sector credit extension (of 16.5%), meaning that Bank Windhoek is gaining market share in the loans and advances space. Over the period, Bank Windhoek went from a market share of 31 to 32%. The growth in loans and advances to customers outgrew the growth in funding, putting the bank under further funding pressure, as the loan to deposit ratio increased from 107.5 to 108.4%, while the loan to funding ratio increased from 96.7% to 98.5%, over the 12 month period to December 2014. As this loan-to-funding ratio is running close to the maximum at the moment, Bank Windhoek will have to increase deposits and/or debt through 2015 should they want to continue to issue loans at the current rate. In this regard, Bank Windhoek issued two new floating rate bonds on the JSE in March 2015, totaling N$479 million. As this debt was relatively expensive (compared to deposits as well as previous bonds) it will result in some, albeit minor, compression of the company's net interest margin, as the marginal cost of funding is higher than the current average cost of funding. Nevertheless, given current and expected interest rates, 2015 is likely to be a good year in which to issue debt, which debt will also help with the maturity mismatch inherent to all banks.

Non-interest income increased by 16.4% in the 12 months to December 2014, and now stands at N$395.7m. As a result of slightly stronger growth in non-interest income than interest income, non-interest income now represents 40.2% of operating income, up from 39.8% as of December 2013. According to the company, "the growth in non-interest income is primarily as a result of the increase in business volumes, with the leading contributors being transactional accounts and electronic banking channels."

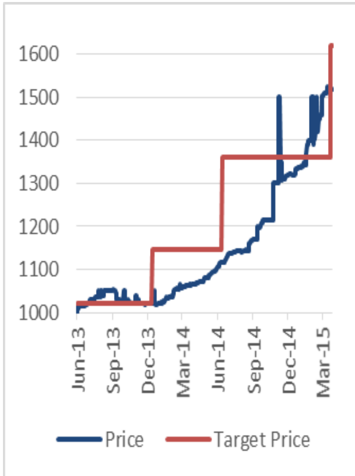
Over the year from December 2013 to 2014, operating expenses increased by 11.0% to N$508.5m, well below the increase in operating income of 15.3%. As a result, the cost to income ratio improved from 53.7% to 51.7%.

Income from associates decreased by 20.4% to N$41.2m, which according to the company was due to base effects "as a result of the non-recurring profit on the sale of Capricorn Unit Trust Management Company Ltd (CUTM) by associate company Sanlam Namibia Holdings (Pty) Limited included in the prior year." Excluding this profit, the income from associates would have increased by 7.0%.

The overall health of the bank's balance sheet remains good and shows signs of improvement off an already high base, as non-performing loans as a percentage of gross advances decreased from 76 basis points to 66 basis points over the one year period.

Based on a justified PE multiple of 11.6x, and considering our FY15 earnings per share forecast of 139cps, we derive a **target price of 1620cps for BWH**. Assuming a 36% dividend pay-out ratio, we expect a dividend of 50cps, with an implied dividend yield of 3.3%. Thus, based on our expected 12 month total return of 9.7 we recommend a **HOLD** on BWH at current levels.

BWH Share Price



Dividends

An interim dividend of 24 cents per ordinary share was declared on 11 February 2015 for the period ended 31 December 2014. The last day to trade cum dividend was the 20 February 2015. The payment date for the dividend was 13 March 2015. We forecast a 2H15 dividend of 26 cents per ordinary share, to be paid out in September or October, 2015.

Analyst

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Macroeconomic Backdrop

The macroeconomic environment in Namibia remains positive, while a number of developments have been seen over the past six months that provide for continued growth opportunities for the local commercial banks.

A notable decoupling of the Namibian and South African economies has been witnessed since 2009. Following the global recession, the Namibian economy rapidly rebounded, posting some of the highest growth figures seen since independence in the subsequent half decade. However, South Africa's economy continued to languish, growing at below trend rates for an extended period of time, up until the present. The structural nature of this low-and-slow growth, means that South Africa is unlikely to rebound dramatically in the short term, and may well remain on a low growth trajectory for much of the next decade. The same cannot be said of Namibia. While partially attributable to fiscal and monetary policy, current growth in Namibia is largely driven by construction activity, creating jobs, increasing disposable income, and expanding the productive capacity of the country, and thus propelling it onto a higher growth path and development level in the future.

This strong growth, however, is not without risks. The speed and vigour of the expansion in the economy has led to a number of macroeconomic imbalances, which if left unchecked may destabilise the future growth prospects of the country to some degree. While numerable in nature, the key issues at present are: i. increasing demand side inflation; ii. increased government debt; iii. declining international reserve levels; and iv. rapidly increasing household debt.

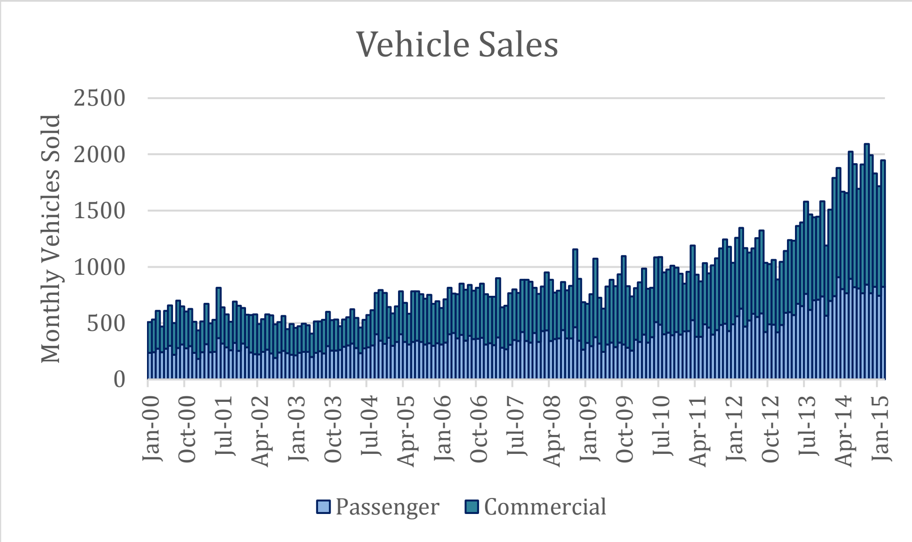
Amongst these issues, most pertinent to the banking system is the increase in household debt, followed by government debt and demand side inflation. The risk from increasing household debt is obvious, as household debt levels can be expected to have an inverse relationship with asset quality, particularly once they surpass a threshold level. In Namibia, this threshold level is unknown, however given that household debt to disposable income is at close to record highs and continuing to grow at a double-digit rates, it is believed that households will be becoming increasingly sensitive to interest rate and income shocks. From the Government debt perspective, total government debt increased by 125% between the start of the 2011/12 financial year, and the end of the 2014/15 financial year. This major increase was driven by the counter-cyclical budget pursued over this period. The increased supply of Government securities may well negatively impact upon the rates at which banks can borrow in the market, through textbook "crowding out". Finally, demand side inflation has been seen in the local economy, largely for services. However, due to high demand and slow supply of housing, house price inflation and by extension, rental inflation, have also been dramatic. House prices double every 4 to 5 years, while anecdotal evidence suggests that rental inflation is upward of 10% per year. The inflation in house prices seen over the past decade have been hugely positive for home owners and the banking sector, however, should prices exceed fair value, a risk of overvaluation of banking and household sector asset values may be seen, which may cause financial sector instability.

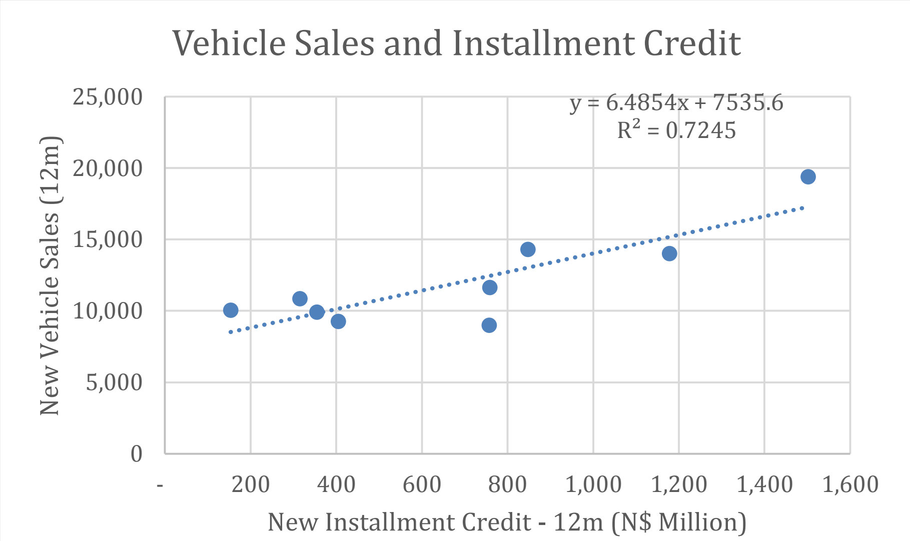
In most economies, these imbalances would be addressed through the tightening of monetary (and at times, fiscal) policy, however in this regard, Namibia is somewhat hampered by the fixed exchange rate regime it shares with South Africa, Lesotho and Swaziland. Due to this, Namibia is unable to implement completely independent monetary policy, and is required to remain fairly close to the rates seen in the common monetary area in order to ensure that unstable capital flows between the countries do not occur. As such, despite the clear need for tighter monetary policy in the country, interest rate increases have been fairly slow. Nevertheless, the Bank of Namibia is in an interest rate hiking cycle, having increased rates by 75 basis points, in the form of three 25 basis point hikes, over the past 12 months.

Nevertheless, this expansive policy and strong growth in the economy have led to a dramatic increase in disposable income, as increased government expenditure coupled with lower tax rates, higher employment, increased wages and cheap money supply have injected funds back into the pockets of the populous. This in turn has resulted in major increases in consumer activity in the country, due to the low marginal propensity to save witnessed in Namibian consumers. Additionally, the increase in disposable income has been utilized to increase leverage at a household level, particularly for consumptive goods, notably vehicles.

Vehicle Sales

As a result of fiscal and monetary stimulus as well as general wealth effects, consumer demand for vehicles has seen a dramatic increase over the past 18 months, with record sales having been seen and then broken in almost every consecutive month of 2014. In the first three quarters of 2014, sales approximately equalled full year sales seen in 2013. For the first nine months of the year, 15,881 new vehicles were sold, many of which will have been funded through instalment credit, given the relationship between vehicle sales and instalment credit extension. As can be seen from the below chart, a fairly strong relationship suggests that the purchase of, for example, 10,000 new cars in Namibia, results in the uptake of approximately N$400 million worth of instalment credit.





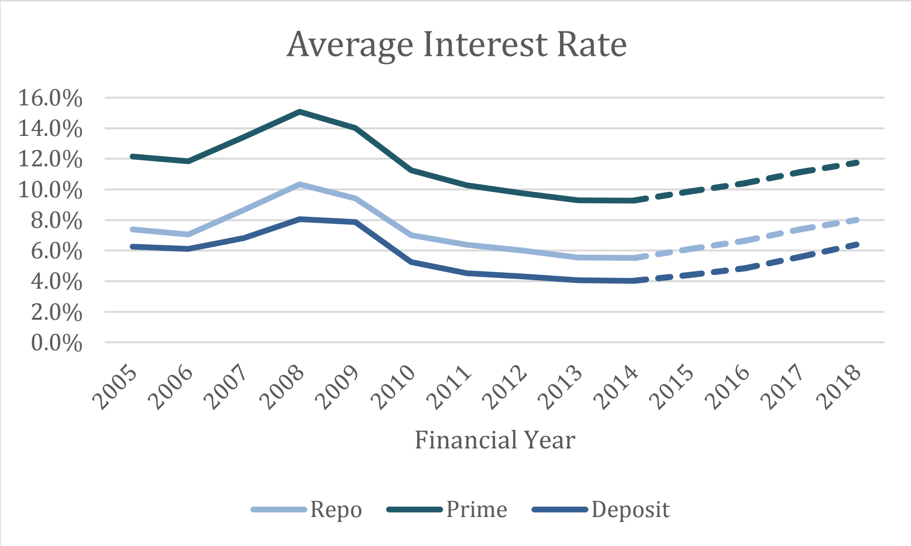
Source: IJG Research

Going forward, we expect to see continued strong demand for vehicles, both in terms of passenger and commercial sales. As Namibian's become more wealthy, more households can be expected to own vehicles, while strong economic growth, particularly in the mining sector, coupled with Government purchases, will drive commercial vehicle sales going forward.

Property Market

The Namibian property market, led by Windhoek, remains broadly challenging from a macroeconomic perspective, defined by strong and growing demand for property, coupled with a major undersupply thereof. Large growth in the country's urban population over the past decade has not been met with a comparable increase in the supply of housing, which has led to major increases in house prices, particularly over the past five years. As such, property prices have been doubling every four to five years -increases well above inflation. However, the fundamental nature of this dynamic is such that we do not foresee any major changes to the status quo going forward. Given various estimates as to a housing backlog totalling some 80,000-100,000 houses in the country, it is unlikely that a major glut of supply will be seen adequate to critically reduce demand and bring about a major price correction, at least in the near-term. As an interest rate hiking cycle starts, non-performing loans can be expected to increase, however despite elevated house prices, we do not expect to see a major increase in this regard, due to the inelasticity of demand for necessities such as housing. Thus, with a growing and ever-more-wealthy urban population, strong demand and undersupply of serviced land is likely to maintain property prices at high, and increasing levels in the foreseeable future.

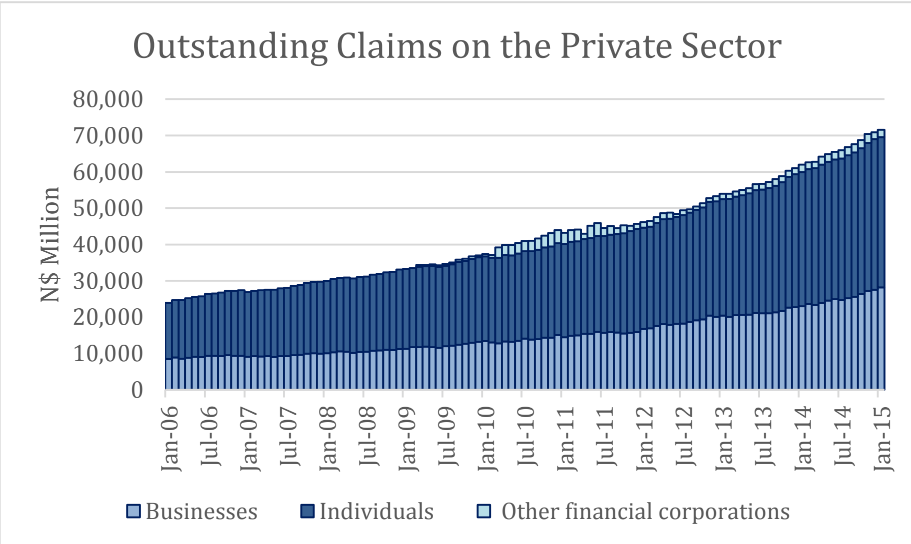
Interest Rates



Following an extended period of historically low interest rates, in January 2014, the South African Reserve Bank (SARB) hiked interest rates by 50 basis points, with the Bank of Namibia (BON) following five months later with a 25 point hike. Thereafter, both the SARB and BON hiked a further 25 points, signalling that a hiking cycle has begun within the common monetary area. However, subsequent weakness in the South African economy and abating headline inflation, due to falling oil prices, kept South Africa's interest rates on hold, while Namibia pushed ahead with a further 25 basis point hike in February of 2015.

It is our view that interest rates in South Africa will remain on hold for much of the rest of 2015, while we believe that the Bank of Namibia will continue to increase rates, albeit slowly, in order to protect the currency peg and attempt to reduce demand for consumptive credit. These slow and steady increases are likely to minimise household duress through the hiking cycle. In addition, the divergent expectations should bode positively for the net-interest margin of the banks, as loans are priced off Namibian rates, and deposits largely off South African rates.

Private Sector Credit Extension

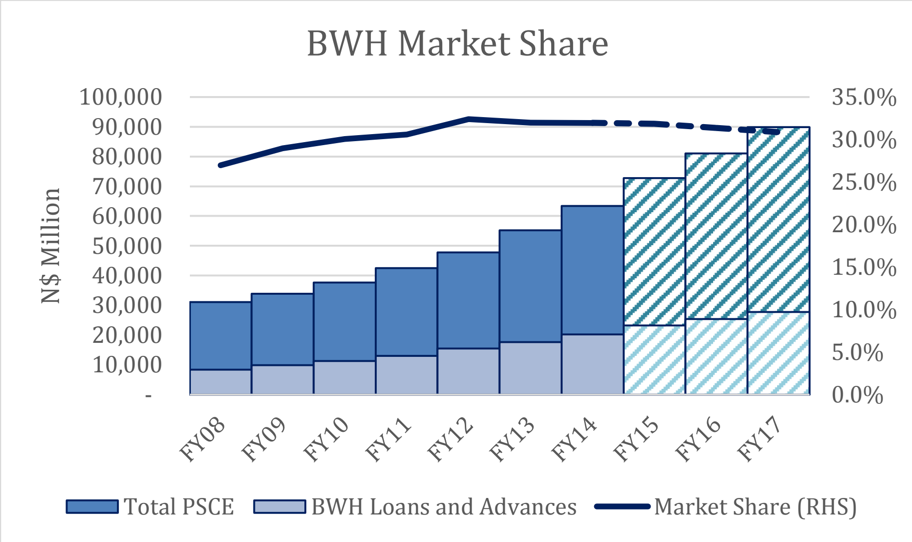


As a result of historically low interest rates for a sustained period, coupled with increasing incomes and wealth on which to leverage, outstanding credit extension to the private sector has increased to unprecedented levels within Namibia over the past 12 months. As of December 2013, outstanding credit to the private sector stood at N$59.6 billion, with N$36.6 billion (62%) and N$22.7 billion (38%) outstanding to households and corporates, respectively. In the following 12 month net issuance surpassed N$9.8 billion, on account of credit extension to both corporates and households. Over this period, both categories expanded by N$4.9 billion. However, due to the relative bases of the two categories, this increase reflected a significantly larger growth rate for corporate debt (of 21.4%) than households (13.3%). Thus, corporate debt is starting to make up an ever larger percent of total debt outstanding.

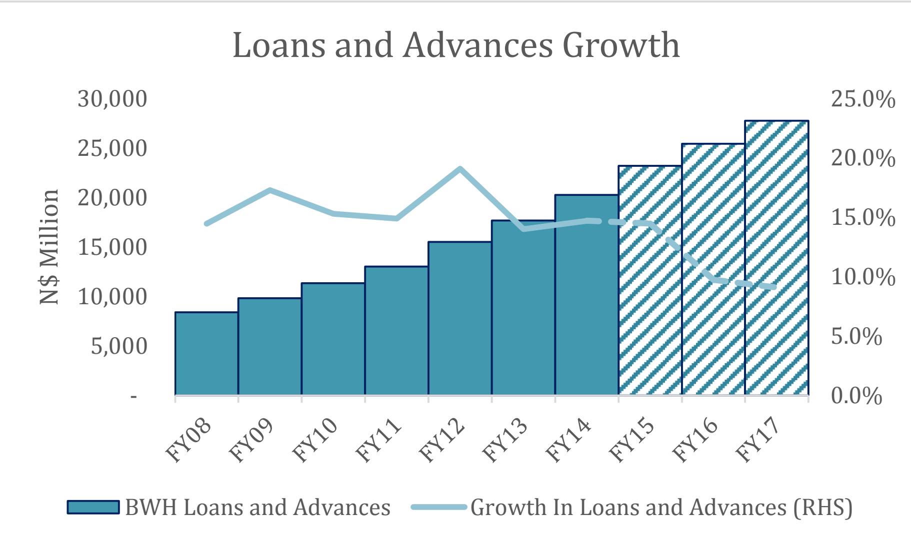
Going forward, we expect credit demand to remain rampant, particularly from private households, while we expect to see slowing growth in PSCE to corporates. On the supply side, however, we expect to see increased caution when it comes to lending as commercial banks go to pains to ensure that asset quality remains good, and that non-performing loans and impairments do not skyrocket as interest rates increase.

Interest income and the asset base

Asset growth



Between FY05 and FY12, BWH successfully grew its market share[1] within the Namibian banking sector, from 24.7% to 32.4%. Thereafter, however, the bank's market share has stabilised and declined, albeit very marginally. As of December 2014, BWH's market share stood at 31.8%, down very marginally from the 32.0% seen as of end FY14. We continue to forecast a slight further decline in market share, to 30.9%, by end FY17. The reasons for this decline are multifold, including new market entrants in the form of Trustco Bank, E-Bank and SME Bank; expected aggressive marketing and client poaching from other established commercial banks in the country; and funding pressure tempering the issuance of new loans going forward. Nevertheless, given the number of players in the market and the bank's current market share, the current and expected market shares remain highly attractive, and well above the bank's natural market share.

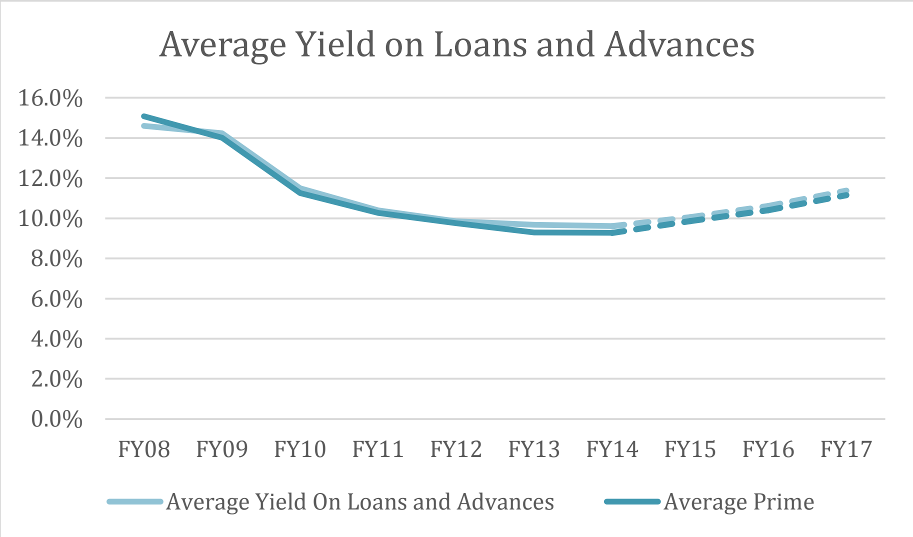


Bank Windhoek's loan book is expected to continue to grow over the next three years, however at a slowing rate, primarily due to the forecasted general slowdown in private sector credit extension growth, as interest rate hikes dampen demand and supply of credit to the highly saturated Namibian credit market.

In Namibia the transmission mechanism for monetary policy is fairly slow, with a 9-24 month lag between changes in interest rates and a notable slowdown in net new credit issuance. Thus, despite the fact than Namibia is in the midst of an interest rate hiking cycle, credit demand remains high, and commercial banks remain happy to supply to this demand. The increase in outstanding claims on the private sector have also been driven by the slow pace at which interest rate increases have been implemented. Since the bottom of the cycle, interest rates have increased just 75 basis points in three separate moves, starting in June 2014. Nevertheless, going forward we do expect to see a slowdown in credit extension growth and expect the largest impact of current and expected rate increases to take effect and markedly slow growth towards the end of FY16 and into FY17. As such we continue to forecast strong growth of 14.5% in 2015, slowing to 9.7% in 2016 and 9.1% in 2017. While this slowdown appears sizable, it must be taken in cognisance of the high base created through

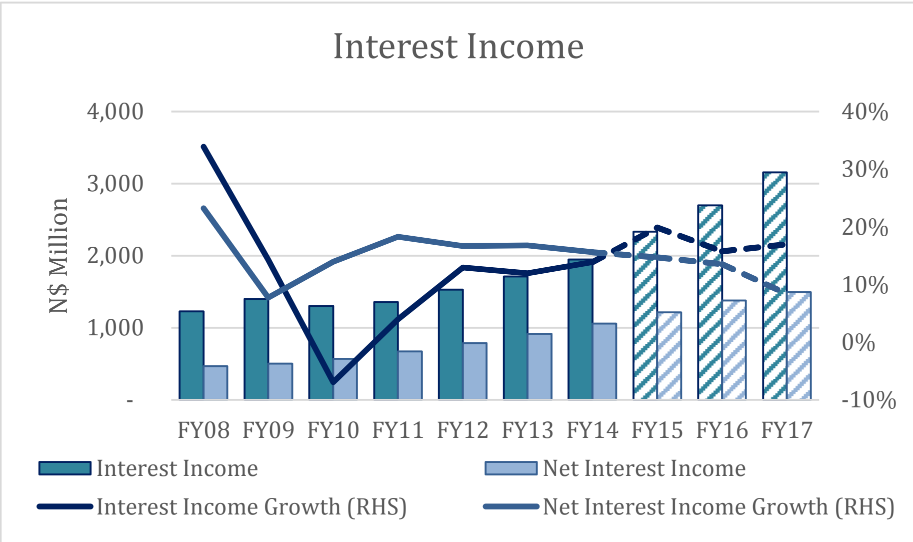
[1] Market share in this regard is measured as loans and advances to customers as a percent of total private sector credit extension.

the historically low interest rate environment of the past half-decade. In nominal terms, this growth translates to a net increase in loans and advances of N$2.9 billion in FY15, N$2.3 billion in FY16 and N$2.3 billion in FY17, and will result in total loans and advances standing at N$27.7 billion at end FY17.



Yield on earning assets and interest income

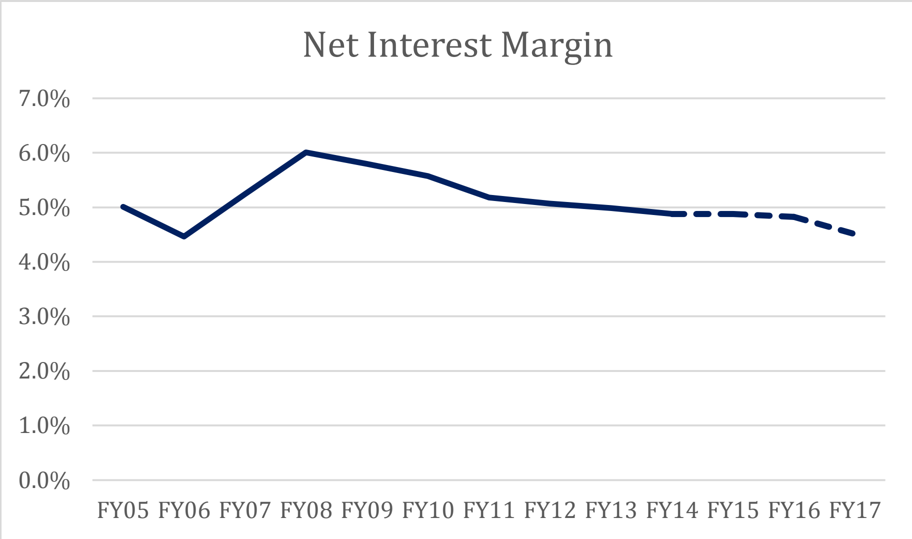
Based on the 6 months ended December 2014, Bank Windhoek's FY15 interest earnings are on track to meet or surpass our previous forecasted yield of 9.6%. This is due, primarily, to higher than forecast base-lending rates. As such we have revised up our forecasted yield, albeit marginally, to 10.1%. This remains slightly above the average forecasted prime rate of 9.9%. Going forward, we expect Bank Windhoek's average yield on loans to maintain a small spread over prime largely due to the relatively tight funding position in which Bank Windhoek currently finds itself. This will ensure that the bank does not allow yields to drop, and will thus increase its interest rates in-line with prime rate increases as much as possible. Given that the vast majority of loans are issued at floating rates, this is unlikely to prove problematic for the bank.



On the back of an interest hiking cycle, as well as increased credit extension, we expect to see a strong increase in interest income in FY15, which increase has been witnessed in the first half of the year and is expected to continue through 2H15. As of the end of the first half of FY15, interest income was up 21.6% year on year. For the year as a whole, we forecast that interest income will expand by 19.8%. Going forward, we expect interest income growth to remains strong, however slow through FY16 and FY17 as the loan books growth slows, and due to the high base created through FY12-FY15. From a net-interest income perspective, the marginal cost of funding is expected to increase going forward as the bank's funding position means they will either have to pay a premium over market and current average rates for deposits, or issue additional debt securities. However, while the marginal cost of funding will increase, the small weighting of this funding on the bank's balance sheet will mean that the average funding cost will remain little changed.

In this regard, we expect to see growth in net interest income slowing from the FY14 level of 15.5%, to 14.2% in FY15 and 13.0% in FY16 and 8.4% in FY17. Thus, while interest income will continue to see strong growth over the next few years, the interest expense will also see similar increases. While a widening interest rate spread is expected, we do not forecast it to be large enough to offset the expected decline expected in net PSCE issuance, ultimately resulting in slower growth in net interest income. It is worth noting, however, that a high base has been created through the bottom of the interest rate cycle, which growth is not long-term sustainable. As such, we forecast net interest income of N$1.21 billion in FY15, N$1.36 billion in FY16 and N$1.48 billion in FY17, up from N$1.06 billion in FY14.

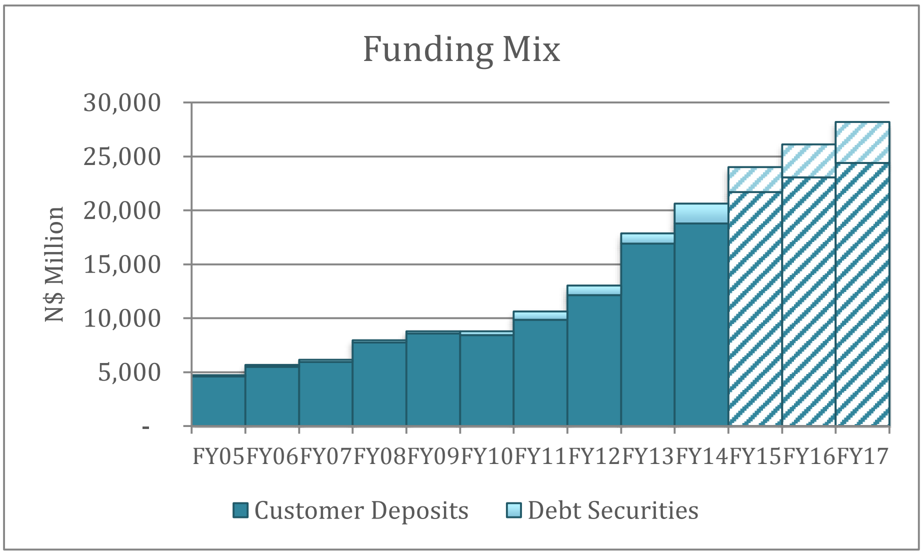
Net interest margin



As of the end of FY14, Bank Windhoek had a net interest margin on lending of 4.9%, marginally below FY12 and FY13. As of the mid-point of FY15, this margin has widened, albeit slightly, to 5.0%, primarily on account of increased interest rates in Namibia over South Africa. As such, the interest rates charged on loans increased slightly faster than those paid on deposits. Going forward, we expect to see this margin remain largely unchanged through to the end of FY15 and FY16 before declining to 4.5% in FY17, as interest rate in South Africa catch up with those of Namibia.

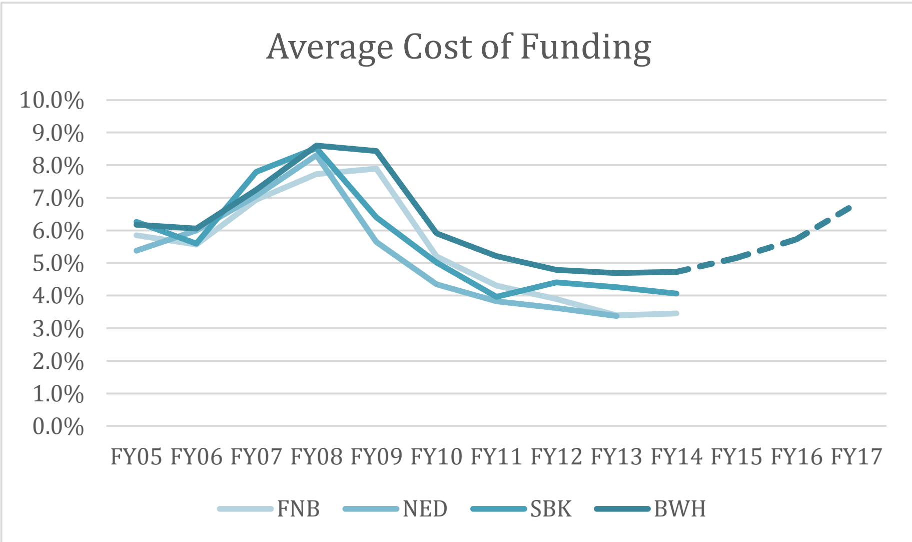
Funding the BWH asset base

Funding mix



In FY14, Bank Windhoek's deposits due to customers increased by 11.0%, from N$16.9 billion, to marginally below N$18.8 billion. However, in the 12 months that ended December 2014, deposit growth increased 17.2%, well above our expectation. Despite this, however, the bank's funding position remains tight, as loan growth was extremely strong over the period as well, growing by 18.2%. On the basis of the strong growth seen through the first half of FY15, we have revised up our forecast for deposit growth in FY15, to 15.5%, from our previous forecast of 11.8%. Thus, by end FY15, we expect deposits due to customers to total N$21.7bn, up from our previous forecast of just under N$21.0 billion.

Debt securities in issue in FY14 made up 8.9% of total funding, up from 5.3% the prior year. In FY13, total debt outstanding stood at N$943 million, while in FY14 this almost doubled, to N$1.8 billion. Through the first half of FY15, debt securities in issue increased by N$200m. This reflected a year on year growth rate of just 6.2%, well below the growth in customer deposits. As such, to date in FY15, debt securities represent a smaller percent of total funding than was the case at the end of FY14.



Historically, Bank Windhoek has had a higher cost of funding than many of its competitors, largely due to the lack of big-brother backing, and the higher percentage of funding sourced through negotiable certificated of deposit (NCD) and debt securities than the other major players.

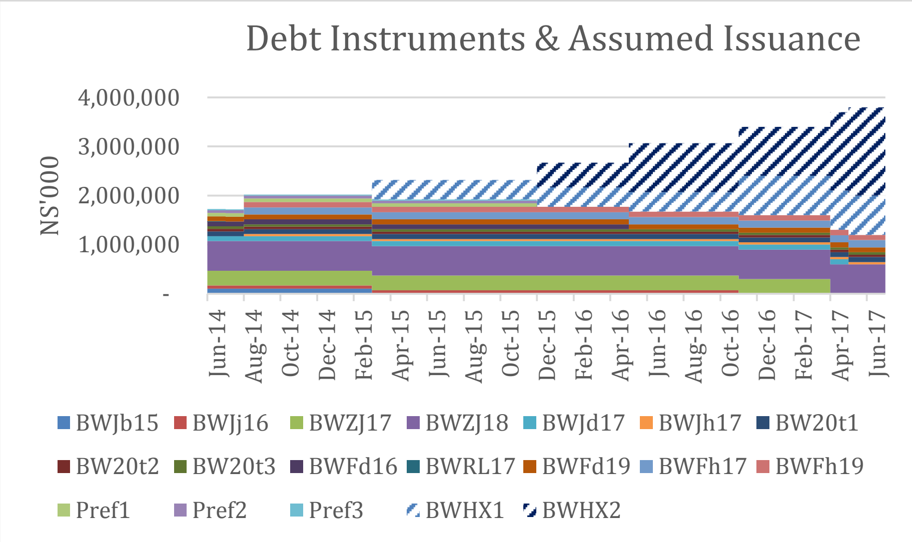
Going forward, we expect this to continue and worsen somewhat, as interest rates and the outstanding value of debt securities increase, resulting in overall increases in the cost of funding for the bank, relative to interest income. On the other hand, as the company becomes more established in the debt markets, it is likely to be able to issue debt securities at a lower rate than the current.

In FY14, the average cost of funding for Bank Windhoek stood at approximately 4.7%, 70 basis points above the average deposit rate in the country. This increase to approximately 4.9% in 1H15, and is expected to increase to approximately 120 basis points over the next three years, for reasons earlier mentioned. Debt securities are expected to increase from 8.9% of total funding in FY14, to 9.7% in FY15, in order to fund an increasing asset base at the company's loan book increases.

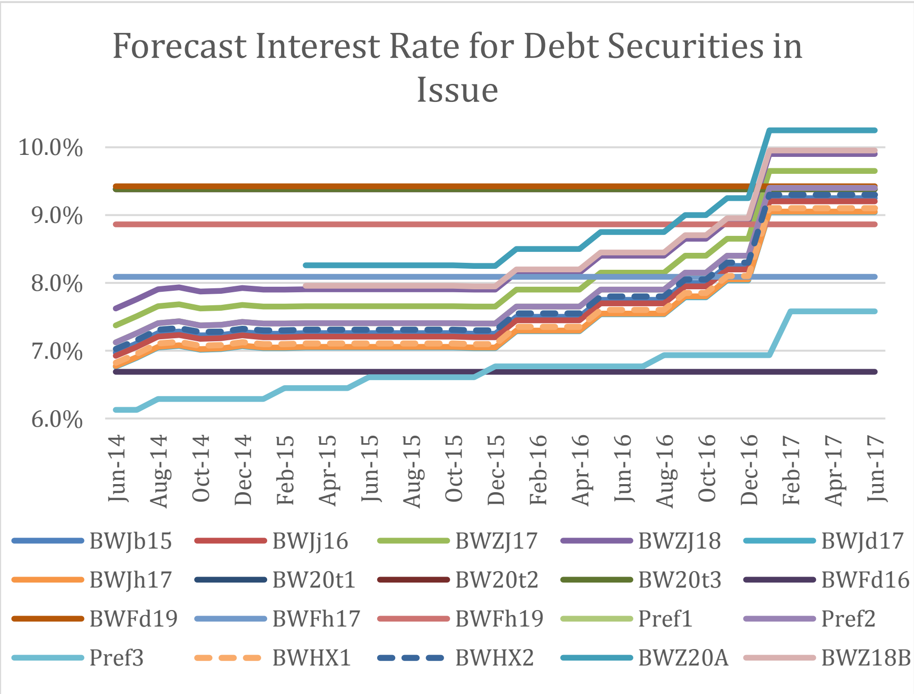
At present, deposits are split approximately 30-70 in favour of retail depositors. Most of these deposits are repo-rate linked, while more of the wholesale deposits, including the NCD's, are priced off the South African Johannesburg Interbank Agreed Rate (JIBAR) curve. As such, the wholesale deposits re-price more regularly than most of the retail deposits, as JIBAR is constantly changing in anticipation of rate changes, while the bank's deposit rate generally reacts after-the-fact, once rates have changed.

Debt securities in issue

As of the end of FY14, Bank Windhoek had N$1.84 billion of debt securities in issue. This increased to N$2.05 billion by the end of 1H15. The vast majority of these securities are listed instruments on the Namibian and Johannesburg Stock Exchanges. As of the end of FY14, all but N$151 million worth of debt securities in issue were listed, with the remainder being in the form of preference shares.



Shortly after the end of the FY14, the bank issued an additional N$300 million in the form of three bonds, namely the BWFh17, BWFh19 and BWJh17. The former two are fixed rate, and the latter is floating rate. In late March 2015, the bank issued two further floating rate notes on the JSE, namely the BWZ20A at N$299 million and the BWZ18B at N$180 million.



As such, at the time of writing, the company's listed debt breaks down to 30.1% fixed rate, and 70.9 % floating. All of the floating rate debt is JIBAR linked, meaning that it re-prices faster, or more regularly, than the company's loans to customers. Moreover, as interest rates increase, the cost of floating rate debt will increase notably, however we expect this to be partially offset by the bank being able to issue with a more attractive spread over JIBAR as it becomes more established and trusted within the listed debt space, both in Namibia and in South Africa.

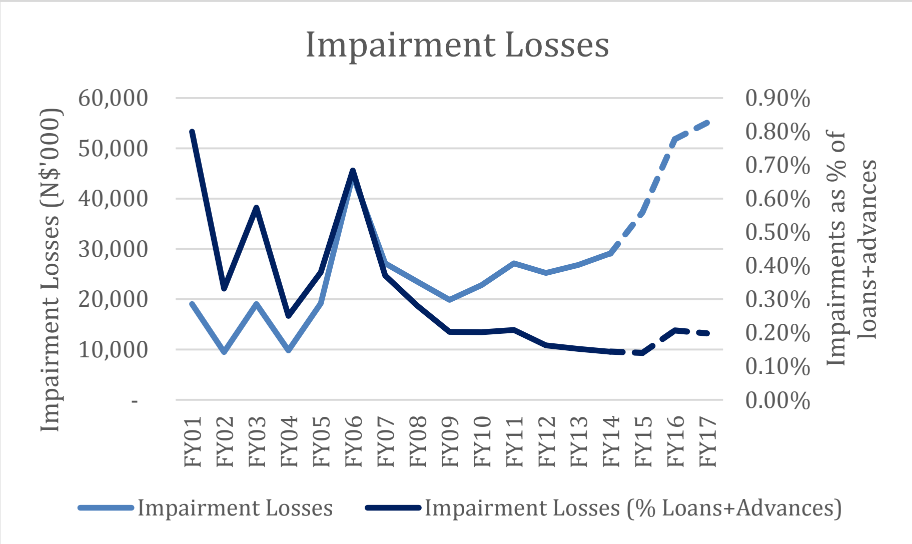
Going forward, we expect Bank Windhoek to continue to issue relatively large volumes of debt in the local and regional markets, both to cover maturing debt, and to fund growth in consumer loans.

Series	Issue date	Final Maturity	Coupon	Issue spread	Issue rate	Benchmark	Issued Amount
BW20	16-Aug-10	16-Aug-20	9.40%	174	9.40%	R157	100,000,000
BW20	29-Oct-10	16-Aug-20	9.40%	169	8.90%	R157	50,000,000
BW20	17-Jun-11	16-Aug-20	9.40%	167	9.20%	R157	50,000,000
BWFd16	15-Apr-13	15-Apr-16	6.70%	140	6.70%	R157	100,000,000
BWFd19	25-Apr-14	25-Apr-19	9.40%	164	9.40%	R204	100,000,000
BWFh17	22-Aug-14	22-Aug-17	8.10%	107	8.10%	R203	145,000,000
BWFh19	22-Aug-14	22-Aug-19	8.90%	125	8.90%	R207	110,000,000
Total Fixed Rate							**655,000,000**
BWJb15	23-Nov-11	23-Feb-15	3m J +115	115	6.70%	3m Jibar	100,000,000
BWJj16	15-Apr-13	14-Oct-16	3m J +110	110	6.20%	3m Jibar	70,000,000
BWZJ18	19-Nov-13	19-Nov-18	3m J +180	180	7.00%	3m Jibar	600,000,000
BWZJ17	18-Mar-14	17-Mar-17	3m J +155	155	7.30%	3m Jibar	300,000,000
BWJd17	25-Apr-14	25-Apr-17	3m J +94	94	6.70%	3m Jibar	100,000,000
BWJh17	22-Aug-14	22-Aug-17	3m J + 95	95		3m Jibar	45,000,000
BWZ18B	27-Mar-15	27-Mar-18	3m J + 185	185	7.96%	3m Jibar	180,000,000
BWZ20A	27-Mar-15	27-Mar-20	3m J + 215	215	8.26%	3m Jibar	299,000,000
Total Floating Rate							**1,594,000,000**
Total Listed Debt (As of 15/04/2015)							**2,249,000,000**

Source: BWH Treasury, BWH Annual Reports, IJG Research

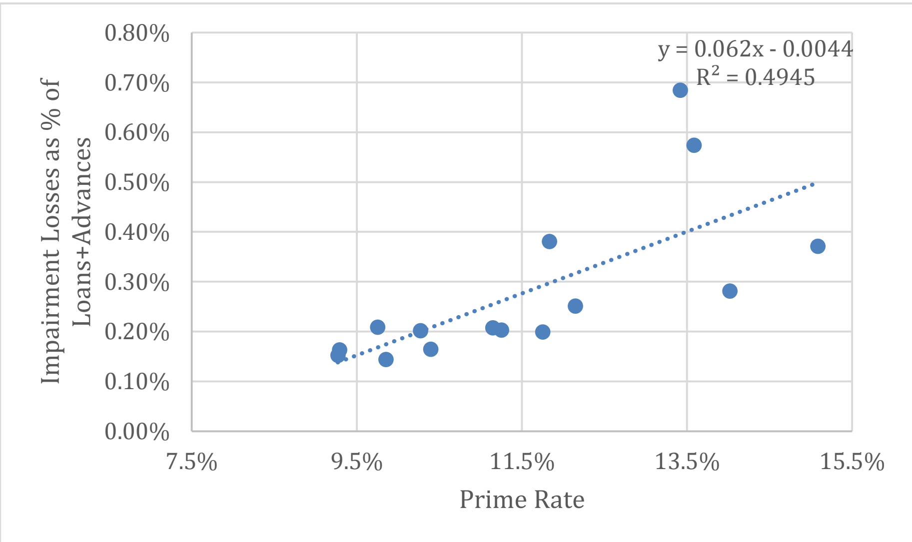
Note: Red – Listed in FY15 to date; Note: Grey – Mature in FY15

Impairment Losses



As interest rates have declined, impairments on the Bank Windhoek book have fallen to historically low levels when compared to loans and advances. As such, total impairments stood at 0.14% of loans and advances to customers, or N$29.1 million as of the FY14 year-end. The 1H15 figures suggest that impairments in FY15 are unlikely to increase much above the level seen in FY14 in percentage terms. In value terms, however, we do expect to see impairments increase, as is to be expected with a growing loan book.

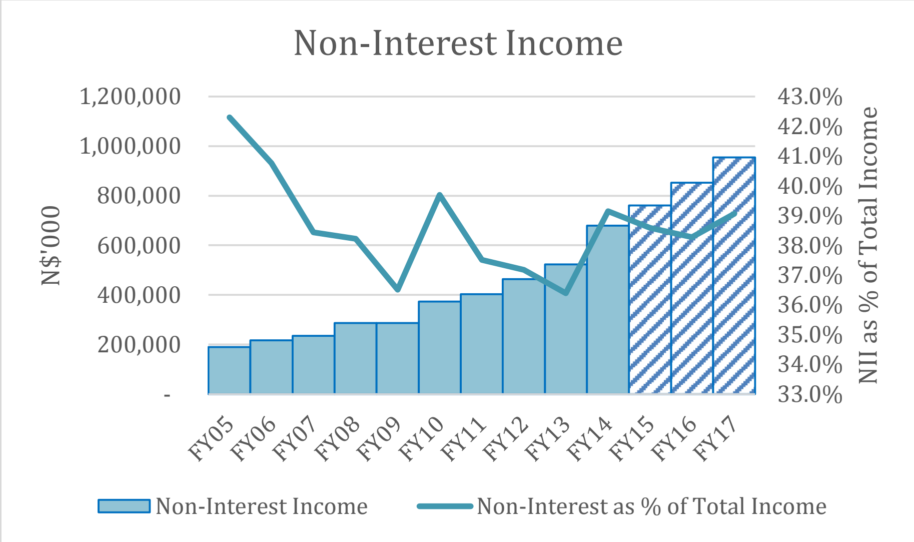
This low level of impairment loss speaks, however, not only to the interest rate, but the prudential approach taken by Bank Windhoek when it comes to the extension of loans and advances to customers. As a result of this, while we expect to see an increase in non-performing loans over the next three years in nominal terms, as a percent of credit extended, we expect the level to remain extremely low. In FY15, we expect the ratio to remain unchanged at 0.16%, while in FY16 we expect a more notable impact on impairments from increasing interest rates. In this year we expect to see impairments as a percent of loans and advances increase to 0.21%. This jump, however, would only see impairments increase to N$52.7 million, which remains negligible on the Bank Windhoek book.



There exists a fairly strong relationship between interest rates (particularly the delta of interest rates) and impairments and should we see rapid and dramatic increases in the interest rate, we can expect to see an increase in non-performing loans and impairments due to the high levels of household debt in Namibia at present, after the major credit uptake seen through the trough of the interest rate cycle. However, as the Bank of Namibia is cognisant of these levels of debt, and as global economic softness allows for slow increases in interest rates, we doubt that rates will increase aggressively in the near future.

Non-interest income

Non-interest income has been a significant contributor to BWH overall revenue over recent years, and is likely to remain so as net-interest income growth slows due to margin compression. As of the end FY14, Bank Windhoek's non-interest income stood at N$680 million, representing 39.8% of total income. At the mid-point of FY15, this ratio remained largely unchanged.



Of this income, approximately 72% comprises fee and commission income, while the remainder is made up of foreign exchange gains and losses, brokerage fees, and asset management and administration fees, primarily.

Going forward, we are expecting to see continued growth in non-interest income, as the bank tries to diversify its revenue sources further. In this regard, the company has been investing heavily in IT systems, allowing for improved digital service provision. Nevertheless, we are cognisant of the fact that the regulator is in the process of attempting to reduce fee and commission income earned by commercial banks, particularly through regulating cash deposit fees. That said, we continue to believe that commercial banks will be able to innovate and generate new products and charges to make up for lost revenue.

Financial Statement Summary

Income Statement

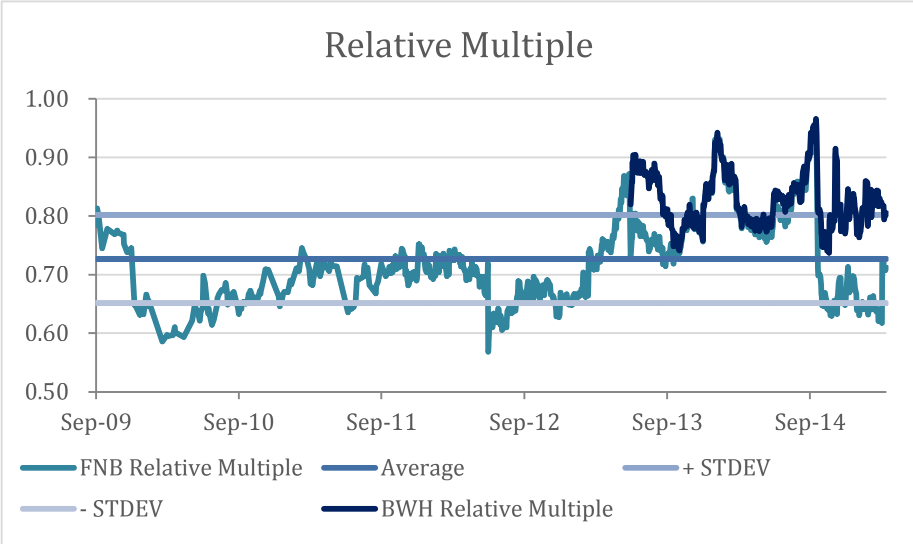
	Actual		Forecast		
in N$ 000s	2013	2014	2015	2016	2017
Interest and similar income	1,708,096	1,944,847	2,330,332	2,697,290	3,154,606
Interest expense and similar charges	-793,642	-887,949	-1,123,465	-1,333,377	-1,676,219
Net interest income	**914,454**	**1,056,898**	**1,206,867**	**1,363,914**	**1,478,387**
Non-Interest Income	**523,191**	**679,732**	**761,300**	**852,656**	**954,975**
Impairment losses	-26,803	-29,115	-38,032	-52,660	-55,080
Operating expenses	-762,759	-914,641	-1,001,532	-1,096,677	-1,200,862
Operating profit	**648,083**	**792,874**	**928,603**	**1,067,232**	**1,177,419**
Share of profit from joint ventures	1,191	1,151	1,324	1,522	1,751
Share of profit from associates	60,445	84,264	96,904	111,439	128,155
Profit before tax	**709,719**	**878,289**	**1,026,830**	**1,180,193**	**1,307,325**
Income tax expense	-216,448	-253,374	-328,586	-377,662	-418,344
Profit for the year	**493,271**	**624,915**	**698,245**	**802,532**	**888,981**
Net gains on available -for - sale financial assets	**22,359**	**14,244**	**14,244**	**14,244**	**14,244**
Total comprehensive income	**515,630**	**639,159**	**712,489**	**816,776**	**903,225**
Headline Earnings	494,866	606,221	698,245	802,532	888,981
EPS (c)	**108**	**125**	**139**	**160**	**177**
HEPS (c)	**109**	**121**	**139**	**160**	**177**
Dividends declared per share (c)	**33**	**44**	**50**	**58**	**66**

Balance Sheet

	Actual		*Forecast*		
	2013	**2014**	**2015**	**2016**	**2017**
ASSETS					
Cash and balances with central bank	852,636	709,431	788,727	751,506	639,043
Government and other debt securities	1,493,165	2,104,938	2,132,121	2,339,280	2,551,799
Investment securities	120,446	72,047	120,000	120,000	120,000
Derivative financial instruments	12,188	2,190	0	0	0
Loans and advances to banks	251,355	472,972	472,964	518,918	566,060
Loans and advances to customers	17,651,962	20,245,395	23,175,226	25,426,961	27,736,948
Investment in associates	191,999	209,364	257,816	313,535	377,613
Other assets	364,857	501,931	1,281,748	1,407,216	1,536,269
Total assets	**20,938,608**	**24,318,268**	**28,228,601**	**30,877,416**	**33,527,732**
LIABILITIES					
Derivative financial instruments	7,792	138	0	0	0
Deposits from banks	166,959	282,664	240,000	240,000	240,000
Debt securities in issue	943,115	1,841,287	2,399,877	3,149,000	3,879,000
Deposits	16,915,652	18,782,411	21,702,661	23,064,417	24,403,536
Other liabilities	281,032	317,610	345,634	375,606	404,985
Total liabilities	**18,314,550**	**21,224,110**	**24,688,172**	**26,829,023**	**28,927,522**
EQUITY					
Share capital and premium	466,745	532,435	532,435	532,435	532,435
Regulatory credit risk reserve/ Non-distributable reserve	149,877	170,354	197,600	216,142	234,694
General banking reserve/ Distributable reserve	2,007,436	2,391,369	2,810,394	3,299,815	3,833,081
Total shareholders' equity	**2,624,058**	**3,094,158**	**3,540,429**	**4,048,392**	**4,600,210**

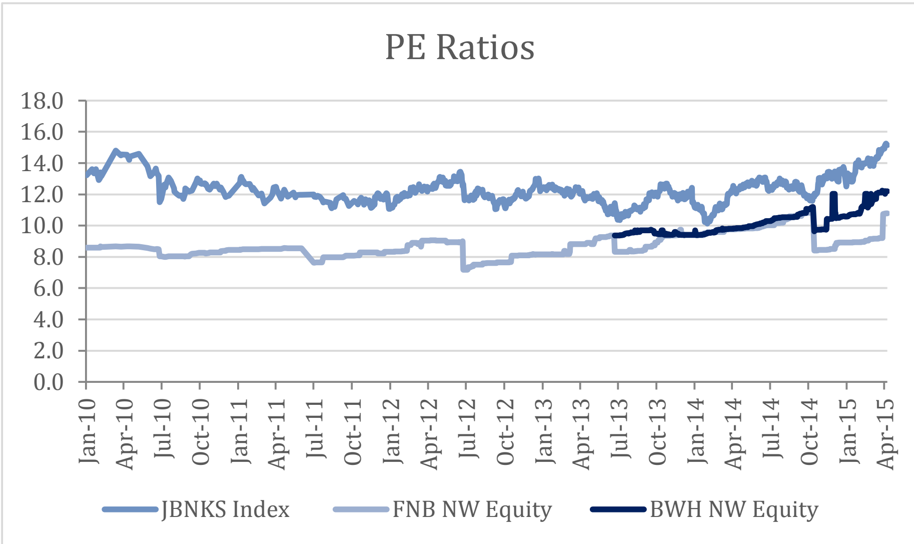
Valuation and recommendation

A strong run in the BWH share price, off a relatively low base following the listing, has resulted in a notable increase in the company's price-to-earnings (PE) ratio, which currently stands at 12.2x, despite strong earnings growth in FY14.



This ratio is well below that of the South African JBank Index (at 15.1x), but is higher than the same ratio for FNB Namibia (10.8x), the other locally listed bank. The aggressive increase in the price of the stock is largely due to the number of trades on such at present, particularly when compared to the rest of the NSX locally listed equity, particularly FNB, and a normalisation in price following the relatively recent listing of the company. However, it must be said that on a relative basis Bank Windhoek does appear fully priced, with Bank Windhoek's PE trading close to one standard deviation away from the historic relative multiple of FNB/JBanks.

Based on this notable increase in the share price and PE ratio, a justified PE multiple of 11.6x[2], and considering our FY15 earnings per share forecast of 139cps[3], we derive a **target price of 1620cps for BWH**. Assuming a 36%[4] dividend pay-out ratio, we expect a **dividend of 50cps**, implying a **dividend yield of 3.3%.** Based on the current share price and target price, we have **revised** our previous BUY recommendation **to a HOLD recommendation**. The reason for this is simply that the expected 12 month return of 9.7% cannot justify equity risk. Nevertheless, we remain very positive about the company, its management team and the environment in which it operates. Based on our valuation metrics, we remain buyers of the share at 1450cps.



[2] Based on a cost of equity of 11.6%, a long term growth rate of 8.5% and a dividend payout ratio of 36%.
[3] Revised up from 138cps in our previous valuation.
[4] Revised down by 1% from our previous valuation, based on small payout seen at the end of 1H15, and expected retention of earnings to fund loan book growth.

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