Capricorn Investment Group

FY17 Results Review

OCTOBER 2017

Securities (Pty) Ltd.
Member of the NSX

Capricorn Investment Group Limited

FY17 Results Review

Target Price (c)	2013
Current Price (c)	1813

Year End 30 June	2016	2017	F2018	F2019	F2020
Net interest income (N$m)	1,458	1,649	1,864	2,147	2,498
Non-interest income (N$m)	954	998	1,078	1,175	1,293
Profit (N$m)	905	918	1,030	1,094	1,214
HEPS (c)	181	182	204	217	241
DPS (c)	66	68	74	78	87
DY (%)	3.8	3.8	4.1	4.3	4.8
P/E (x)	9.5	9.5	8.4	7.9	7.2
P/BV (x)	2.0	1.7	1.5	1.4	1.2

Recommendation	BUY
NSX Code	CGP
Market Cap (N$m)	9,371
Shares in Issue (m)	516.9
Free float (%)	20.1
52 week high (c)	1819
52 week low (c)	1685
Expected Total Return	14.9%

Source: CGP, IJG

Capricorn Investment Group have released integrated annual report for the year ended 30 June 2017. The results reflect the difficult operating conditions prevalent in Namibia characterized by low liquidity, higher cost of funding, slowing GDP growth and slower private sector credit extension.

During the year the group acquired a 68.7% stake in Capricorn Investment Holdings Botswana, which in turn holds 100% of the share capital in Bank Gaborone. The group also bought 97.9% in Cavmont Capital Holdings Zambia, the holding company of 100% of the share capital of Cavmont Bank.

Advances in Namibia grew by 7.2% to N$28.5 billion, which was lower than the overall growth in private sector credit extension which stood at 8.0% y/y in June. As a result, Bank Windhoek's market share declined from 33.8% to 33.6%. Total advances grew by 25.7%, from N$26.6 billion to N$33.4 billion following the acquisitions of the two banks. Bank Gaborone and Cavmont Bank now account for 12.2% and 2.5% of total advances respectively.

Total funding increased by 34.9% to N$37.2 billion including Bank Gaborone and Cavmont. On a normalized basis, Bank Windhoek's funding increased by 7.6%. However, interest expense grew substantially due to the low liquidity environment experienced in Namibia.

During the year, The Government Institutions Pension Fund of Namibia increased its shareholding in the group to 26%, making it the second largest shareholder after Capricorn Investment Holdings. These two shareholders can now be viewed as the shareholders of reference and have jointly pledged N$1 billion contingency funding facilities, which greatly reduces liquidity risk. Furthermore, the group has lengthened its funding maturity profile and decreased its reliance on short term deposits.

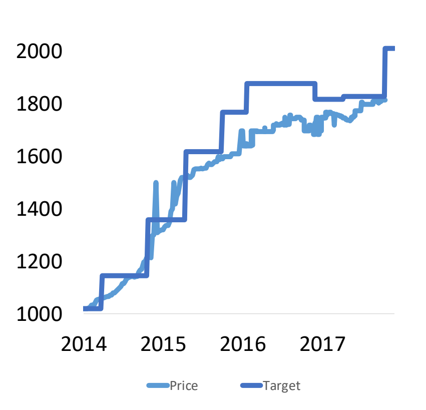
Net interest income grew by 13.1% to N$1,649.5 million. On a normalized basis, net interest income grew by 3.3% due to the squeeze on the net interest margin. Non-performing loans increased sharply to around 2.2% of the total portfolio. This is attributable to the consolidation of the Botswana and Zambian operations, where non-performing loans are substantially higher. Bank Windhoek, on the other hand, had a stable non-performing loan ratio which increased from 1.32% to 1.44%. Impairment charges decreased, on a normalized basis, by 23.4% to N$46.6 million or 0.17% of advances.

The group remains well capitalized with the total risk-based capital adequacy ratio of 16.6% and a tier 1 risk-based capital adequacy ratio of 15.4%, well above the regulatory requirements of 10.0% and 7.0% respectively.

Non-interest income grew by 7.4% on a normalized basis. The steady growth was bolstered by increases in transaction based income, which recorded growth in excess of 20% while electronic channel income also delivered robust volume growth.

Operating expenses were once again well contained, increasing by 7.1% to N$1,215 million. Costs were driven largely by the amortization of investments into IT systems. Staff costs, which make up more than half of operating expenses, were also contained to roughly a 4.0% increase. The cost to income ratio of the group

CGP Share Price



Dividends

A final dividend of 38 cents per ordinary share was declared on 15 August 2017 for the period ended 30 June 2017, bringing the total dividend to 68cps for FY17.

- LDT: 25 August 2017
- Ex Date: 28 August 2017
- Record date: 1 September 2017
- Payment date: 13 September 2017

Analyst

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increased to 53.9% from 50.2% as a result of higher cost to income ratios of the subsidiary banks.

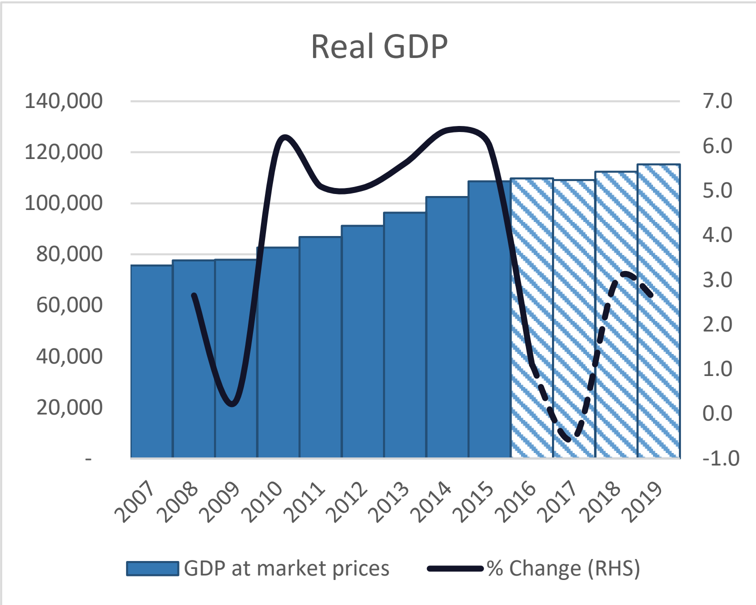
According to management the two new banks present a meaningful runway for growth. A large proportion of these markets remain unbanked, especially in Zambia where many small businesses still operate on a cash basis. Zambia also offers very attractive double-digit net interest margins. Although Cavmont has not contributed significantly to the bottom line, Bank Gaborone has doubled their profit in the last year and both these entities are expected to make up a larger share of profits going forward.

For the purpose of valuing the company, we establish a **cost of equity of 14.6%,** which consist of a **risk-free rate of 10.0%**, an **equity risk premium of 4.6%.** Based on this cost of equity, a **long-term growth rate for the company of 9.0**%, and a **long term sustainable return on equity of 19.0%** we believe a Price to Book multiple of 1.78x can be justified. Given expected book value per share of 1,133 cps in FY18, we derive a target price of N$c2013 per share. Coupled with an expected dividend of 74cps, we expect a **total return of 14.9% in FY18**. As a result of our expected return being slightly higher than required return on equity, we change our recommendation on to **BUY** on the Capricorn Group.

Macro Backdrop

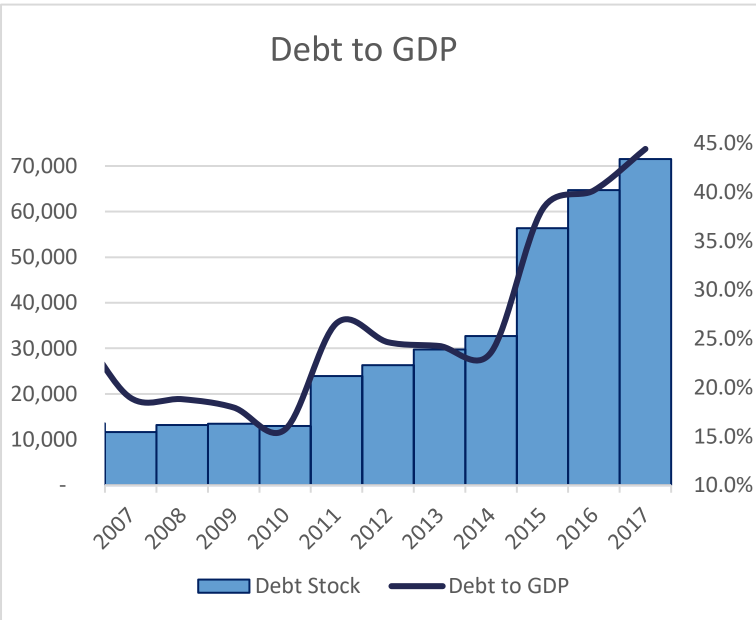
Growth Environment

The 2016/17 financial year was a particularly difficult year for the Namibian Economy. After many years of expansionary fiscal and monetary policy, the Namibian economy currently finds itself in a recession with limited policy tools available with which to kick-start growth.



Final National Accounts data shows real GDP growth figures for 2016 significantly depressed at 1.1% from 6.0% in 2015, while second quarter GDP figures indicates that both quarters of 2017 have declined by 1.7% on an annualised basis

The slowdown in growth stems from a slowdown in foreign direct investment and completion of construction on various mining projects, coupled with a slump in commodity prices and slowdown in government revenue growth. The construction sector was hardest hit by slowing government spending, posting a real contraction of 26.5% y/y in 2016.



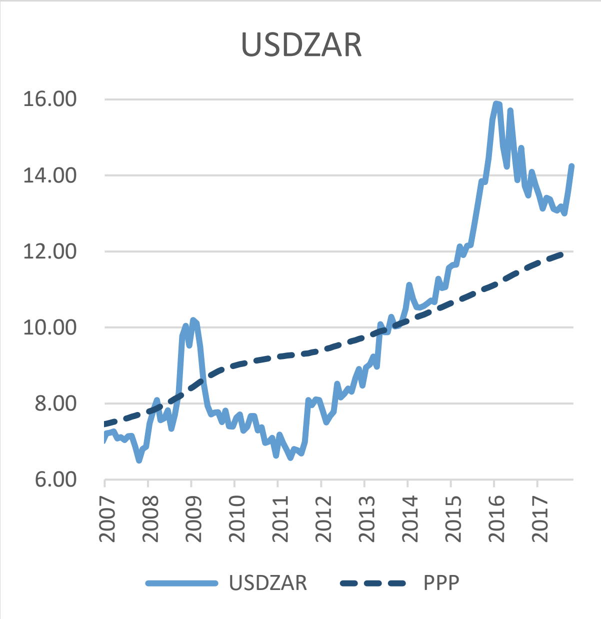
Elevated levels of government expenditure coupled with the slowdown in government revenue led to a large increase in public debt during 2015 and 2016, as growing budget deficits had to be financed. As a result, Debt to GDP rose from 23.6% in 2014 to its current level of around 44.4%. The rapid accumulation of government debt caused a crowing out effect where government securities drained liquidity for the market and caused funding costs for the banks to rise dramatically.

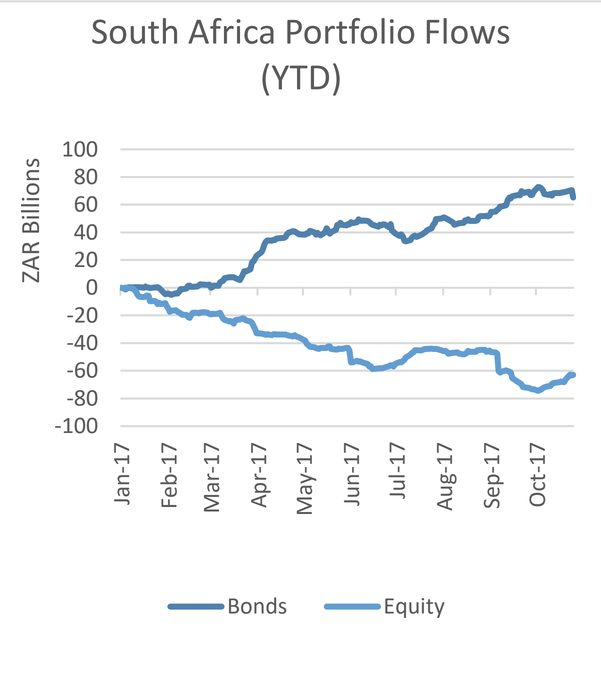
Although fiscal consolidation efforts have been implemented since the midterm budget review in October 2016, high debt to GDP levels as well as delayed or non-payment of private sector invoices were contributing factors to a Moody’s downgrade of Namibia’s foreign currency denominated debt to sub-investment grade. Although the downgrade had little immediate impact, this will increase our borrowing costs for foreign denominated debt in the future.

The region has showed some signs of improved growth prospects. After two consecutive quarters of decline, the South African economy lifted out of recession in the second quarter of 2017. Positive contributions to higher economic activity was experienced across most industries. Agriculture, finance and mining lifted South African GDP by 2.5% in the second quarter on an annualised basis. Agriculture continued to show strong recovery from South Africa’s recent drought, increasing production by 33.6% driven mostly by maize and wheat production. However, despite the recent uptick, expectations for growth going forward remains depressed.

Namibia is expected to recover from the current economic slowdown, but this is likely to take some time. Pro-cyclical fiscal policy, which contributed to the overheating of the economy, may now result in the economy remaining in a low growth environment for an extended period. Balancing structural reforms while undertaking fiscal consolidation will be challenging, but very necessary. Similarly, our mid-year budget review, will shed important light on the progress made by such measures.

Exchange Rate



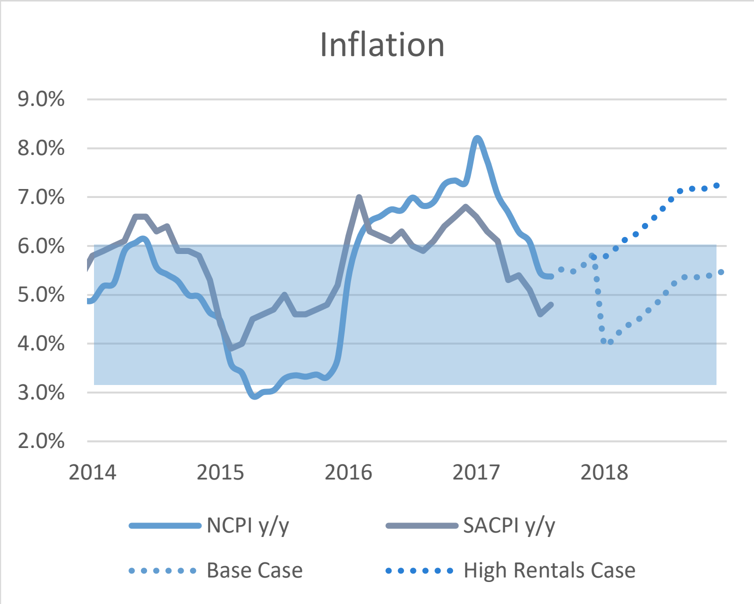


The rand had been steadily appreciating against the USD following the rapid depreciation witnessed in 2015. The currency also strengthened on a trade weighted basis by 10.7% since the start of 2016 to the end of September 2017. However, the month of October saw rapid depreciation in the currency which coincided with the South African midyear budget review. The South African government's finances and prospects over the next three years did not paint a rosy picture and was immediately met with a 50 basis point spike in the R186's yield and a 55 cent depreciation in the USDZAR exchange rate.

The risk of a local currency credit rating downgrade in South Africa, which would result in the country falling out of global bond indices, has increased dramatically following the forecasts released in the South African mini budget speech. South African debt to GDP forecasts have breached the 60% mark for 2022 while revenues have come in very light.

The rand is still relatively far away from its purchasing power parity (PPP) value, which we estimate at around ZAR 12.00/USD, but given the current state of South African finances accompanied by a turbulent political landscape, this level is unlikely to be reached soon. Inflows into bonds have been strong year to date, which has provided some support for the rand. However, signs of foreign selling have started to emerge and should this trend continue, may put further pressure on the currency.

Inflation

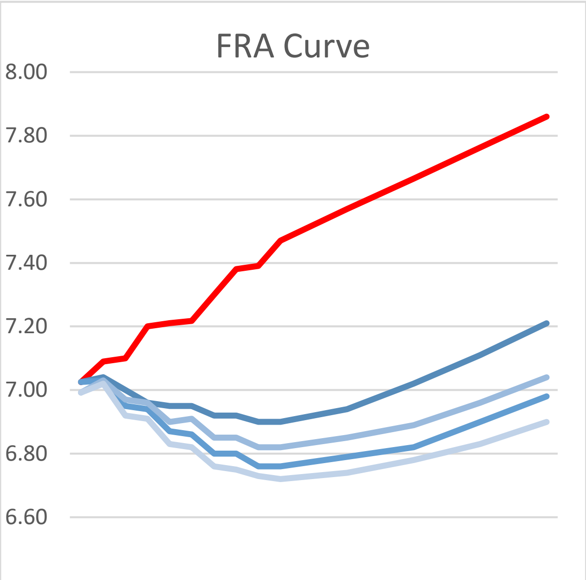


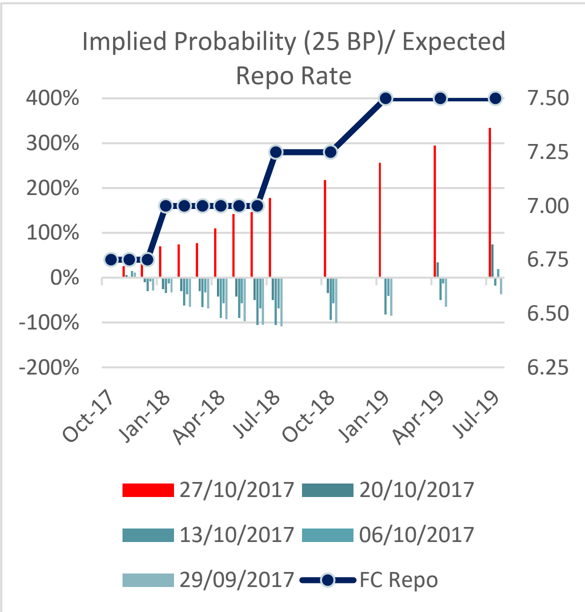
The Namibian inflation rate has returned to the 3-6% range, as the most recent readings have surprised to the downside. Namibian inflation remained above 6% for the first half of the year, and has dropped to 5.6% in September.

South African inflation displayed a similar trend, and stood at 5.1% at the end of September. Inflation moderated more rapidly than expected due to quickly decelerating food price inflation as the effects of the drought in the Southern African region ceased. The South African reserve bank expects SACPI to average around 4.8% over the next twelve months.

Our NCPI inflation forecast is heavily dependent on rental payments for dwelling sub-category, which makes up 23.3% of the overall inflation basket. If rental increases revert to their mean, as implied by our autoregressive model, then inflation should average around 4.9% in 2018. However, if rentals display the same 9.8% increase seen in January 2017, this will underpin a much high level of in 2018, averaging around 6.7% for the 2018 calendar year.

Interest Rates





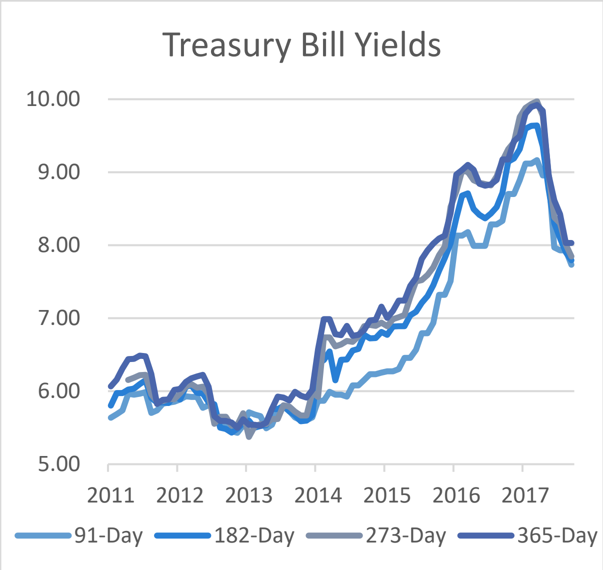
Interest rate expectations have changed substantially following the South African midyear budget speech.

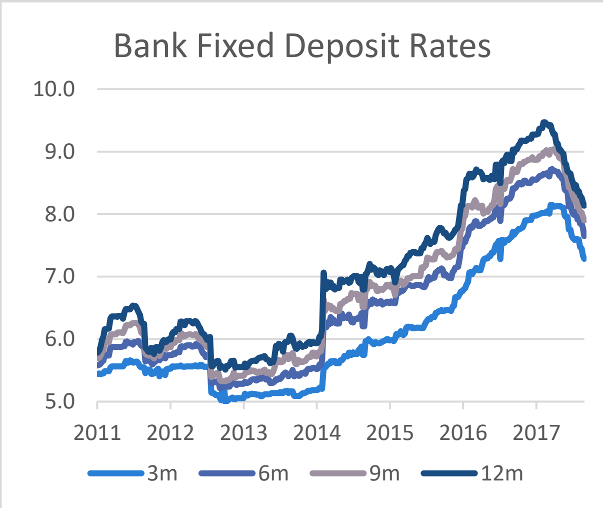
After the downgrade of the South African foreign denominated currency debt rating expectations were pointing to increases in the South African repo rate. However, following a decline in GDP growth expectations and a rapid deceleration in inflation, South African Reserve Bank's (SARB) July monetary policy committee (MPC) meeting saw an unexpected 25 basis point cut in the South African repo rate. Additionally, the September MPC meeting also delivered a surprise, as the anticipated 25 basis point interest rate cut did not materialise, and the central bank elected to hold the repo rate at 6.75%.

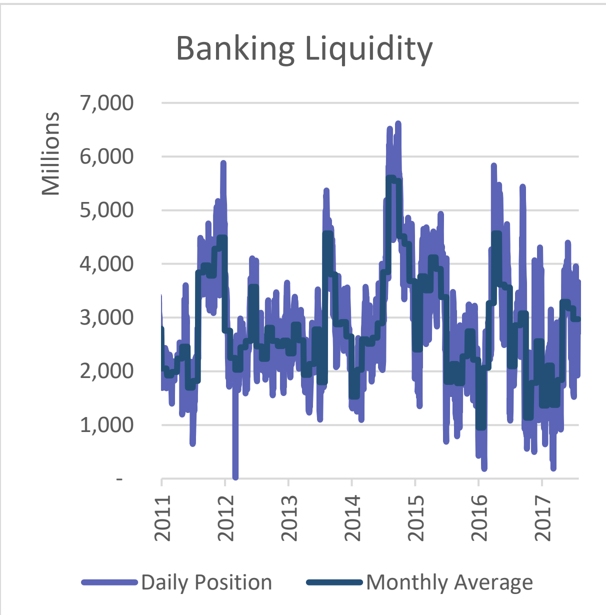
Following the midyear budget review, expectations have once again turned towards a rate hiking cycle. The mini budget pointed to severe revenue shortfalls combined with lower forecasted economic growth and rising debts costs as a percentage of expenditure.

As a result, a local currency downgrade seems inevitable, as no new initiatives to stimulate growth or cut government expenses were announced. The new (new) finance minister's budget severely underwhelmed analysts. As a result, expectations are now for three increases in the repo rate over the next 18 months from 6.75% to 7.50%.

Funding Costs







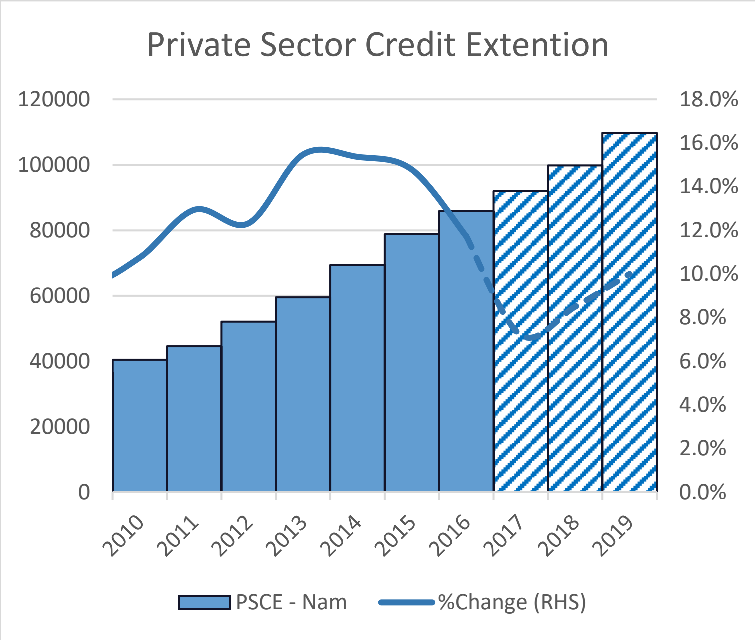
Funding costs were a major thorn in commercial banks' side in the last financial year. Following the rapid accumulation of government debt to finance large budget deficits, treasury bill yields increased to compensate for the increased credit risk as well as the decreased demand.

The large issuances in the short-term government securities drained liquidity from the market and directly competed with the banks' institutional funding. As a result, deposit rates increased dramatically, squeezing banks' net interest margins.

However, since April 2017 rates have been falling steadily. Liquidity conditions improved considerably as government found alternative sources of funding, which included a bridge loan from the African development bank to the tune of N$10 billion over the next two budget years.

Funding costs are expected to bottom out at current levels. Yields have continuously been pushed down at government bond and treasury bill auctions and bank deposit rates have followed. However, seeing as the possibility of interest rate increases have resurfaced, funding costs should increase in line with the repo rate. However, Namibian credit spreads are likely to remain at their current, more normalised, levels.

Credit Demand and Supply



Private sector credit extension has continued to slow over the last six months, largely due to the factors of low liquidity, high funding costs and slower economic growth.

PSCE growth declined to 6.4% in August driven largely by a slowdown in corporate credit which increased by only 6.0% y/y in August, while credit extended to individuals grew by 6.4%.

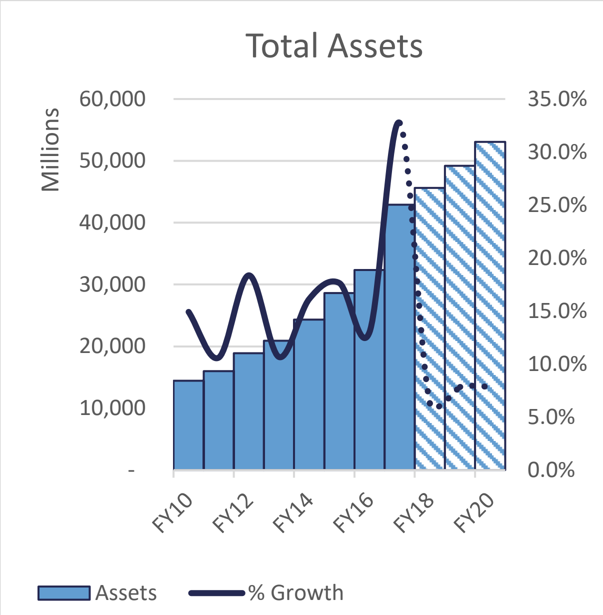
Instalment credit was the hardest hit by the economic slowdown. This was likely a combination of the direct effect of lower government spending as well as lower disposable income and lower demand for capital goods. Vehicle sales, the main contributor to instalment finance, have slowed by 22.8% on a twelve-month cumulative basis.

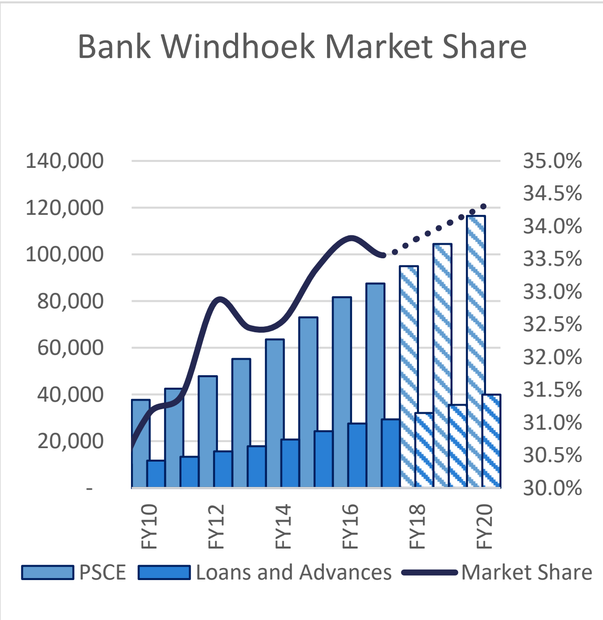
Mortgage loans have also slowed considerably, growing at 7.8% y/y in August 2017 compared to 10.5% in August of 2016. However, overdraft loans, which grew by 16.9% y/y in August has been the one category which has displayed strong growth, which may be indicative of the stretched financial position of many individuals and corporates are facing.

Seeing as liquidity has improved somewhat, demand for credit will remain the obstacle for credit growth going forward. Credit extension will be tied to recovering economic growth and improving disposable incomes, which will likely not pick up rapidly in the short term. The possibility of higher interest rates over the short term also does not bode well for the demand for credit. We expect this demand to pick up slowly over the next three years. We expect private sector credit extension to decline to 7.2% in the current financial year before ticking back up to 10.0% in 2019.

Asset Base

Asset growth



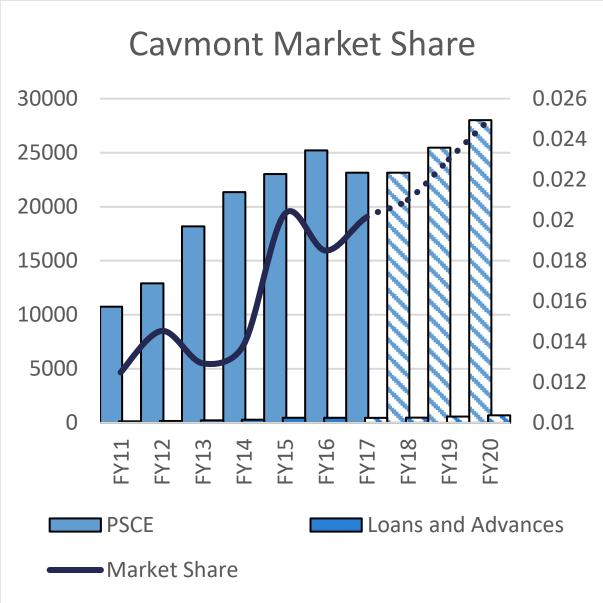


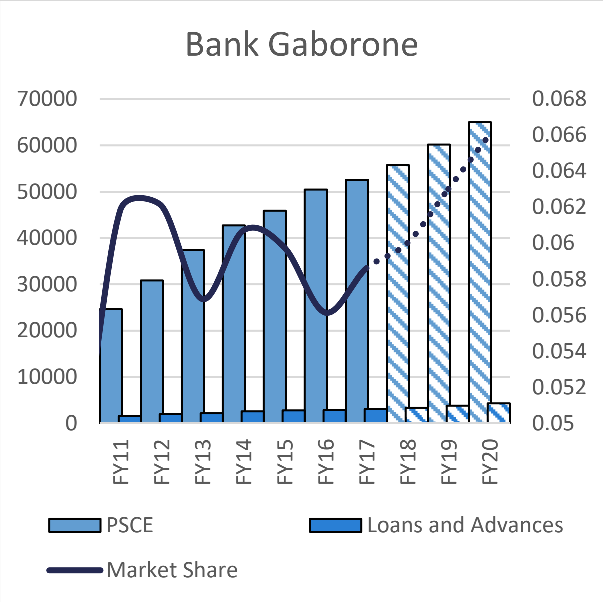
Total assets at the Capricorn group grew by 32.7% to N$42.92 billion, following the acquisition of the two new banks. Total advances grew by 25.7% to N$33.43 billion, while Bank Windhoek's advances grew by 7.2% to N$28.51 billion. Namibia currently makes up over 85% of total advances to customers.

The growth in Namibian advances was slightly lower than the 8.0% growth in private sector credit extension and as a result Bank Windhoek's market share declined from 33.8% to 33.6%. We expect asset growth to be muted over the next three years as private sector credit in Namibia will likely post single digit growth over the next three years.

We maintain that Bank Windhoek is in a good potion to grow their market share, albeit only slightly. Bank Windhoek's largest constraint had always been limited availability of funding. Previously we have expressed the view that Bank Windhoek has been at a disadvantage compared to the banks with "big brother" backing, due to the availability of liquidity and funding via the parent company. However, following the on-boarding GIPF as a shareholder of reference, and opening up lines of credit, has levelled the playing field somewhat.

Furthermore, management have indicated that they are considering increasing their risk appetite, as historical credit loss ratios have been extremely low. They see opportunity to expand into areas where they have lower market share, such as the retail mortgage market, where they currently have 27.5% share. As a result, we expect Bank Windhoek to be able to increase their current market share slightly, from the current 33.6% to 34.3% over the course of three years.



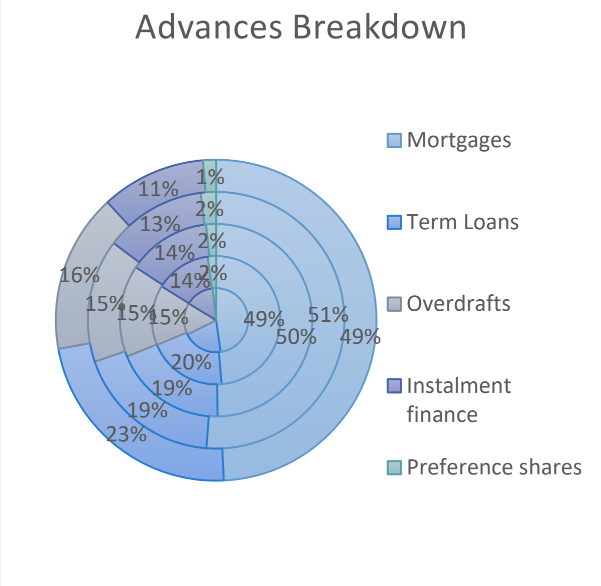


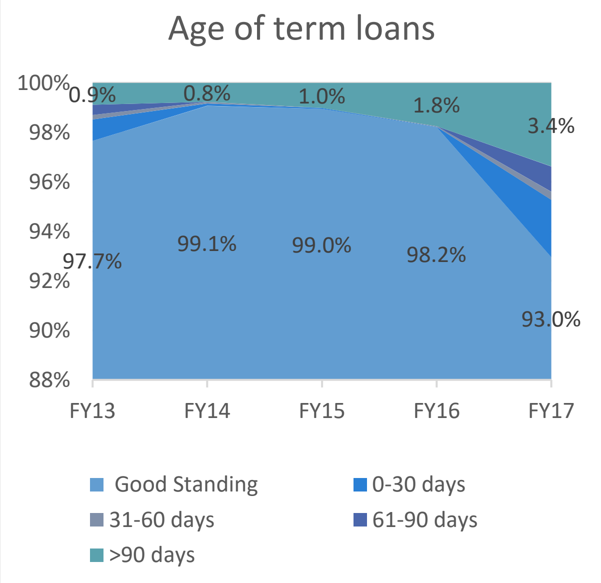
Furthermore, we also expect market share in Botswana and Zambia to start gaining ground. Botswana has posted reasonable increases in advances, which grew by 8.7% in Pula terms during FY17. This was well above the 4.1% private sector credit growth recorded in Botswana.

Management reiterated their plans for inorganic expansion in Zambia, as the current estimated market share of 2.0% is not enough to gain sufficient economies of scale in the highly competitive market. However, private sector credit in Zambia has been contracting, posting an 8.2% decline over the FY17 financial year.

The support these banks will be able to receive from the parent will give them a distinct advantage when liquidity and funding is hard to come by. These banks are still relatively small, and growing market share in these two markets will likely be the runway for growth for the group as a whole.

Advances Breakdown





Capricorn Group's advances are still heavily weighted towards mortgages, which currently make up 49% of the overall loan portfolio. These mortgages are spilt roughly 57:43 between retail and corporate mortgages.

Overdrafts grew by 30.0% to N$5.40 billion and make up 16% of total advances. Overdraft growth has been strong in Namibia, growing by 16.1% over the FY17 financial year. This is likely a sign of a stressed consumer and of businesses affected by cash flow issues. Many companies have been directly or indirectly affected by the late payment of government invoices and as a result required short term facilities to make up the shortfall.

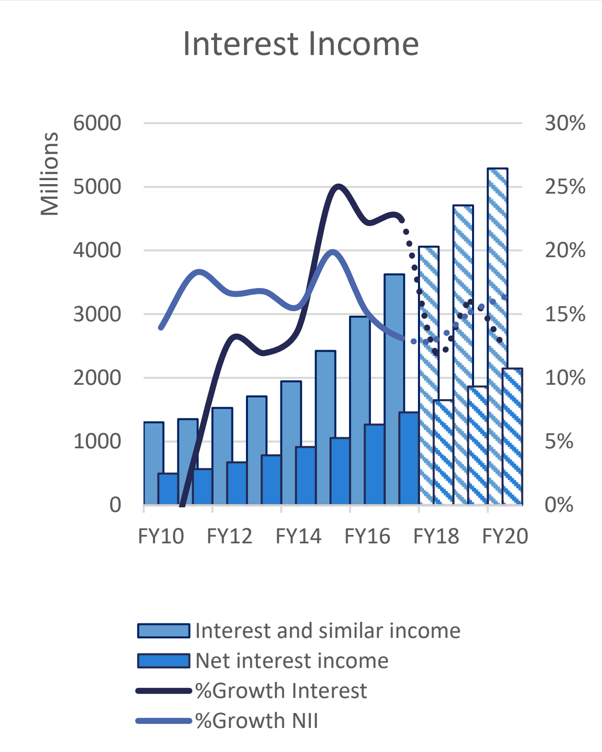
The proportion of term loans grew also strongly in the last financial year, which was largely due to the acquisition of the other two banks. This has increased the proportion of term loans to 23% of the loan book or N$7.73 billion. The credit quality of these term loans seems to have deteriorated with the take on of the African subsidiaries combined with a difficult economic climate in Namibia. The percentage of term loans in good standing have declined from 98.2% to 93.0%, while the proportion of impaired loans (more than 90 days outstanding) have increased to 3.4%.

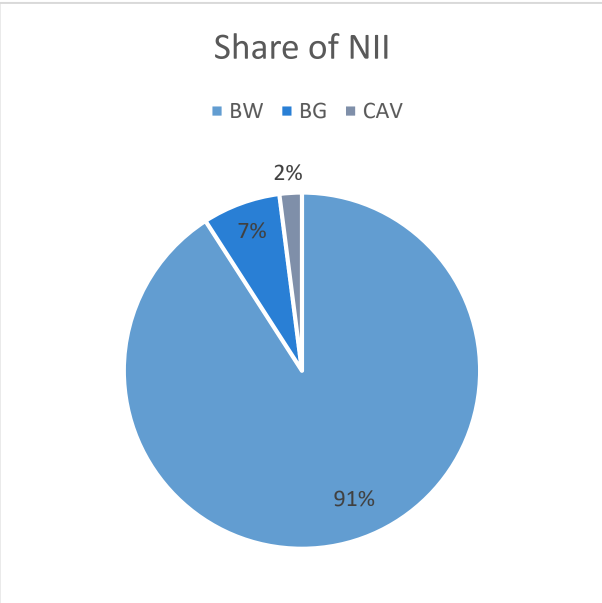
Instalment credit grew slowly in FY17 increasing by 3.6% to N$3.56 billion. This was largely a factor of slowing vehicle sales which declined by 24.1% in Namibia during the FY17 financial year. Additionally, the amendments to the Credit Agreement Act had a significant effect on consumer spending, as fewer people are eligible for vehicle financing.

Overall the composition of the Capricorn group's loan has not changed significantly with the take on of the new banks, seeing as they are relatively small in comparison. However, these loans appear to have a longer average age, and the lower credit quality, especially of the Zambian book, may lead to increased impairment costs in the future.

Net Interest Income

Interest Income





Interest income grew by 22.4% y/y to N$3.63 billion while net interest income increased by 13.1% to N$1.65 billion. Interest income is still mainly derived from Namibian sources. However, Bank Gaborone did contribute decent figures during this financial year.

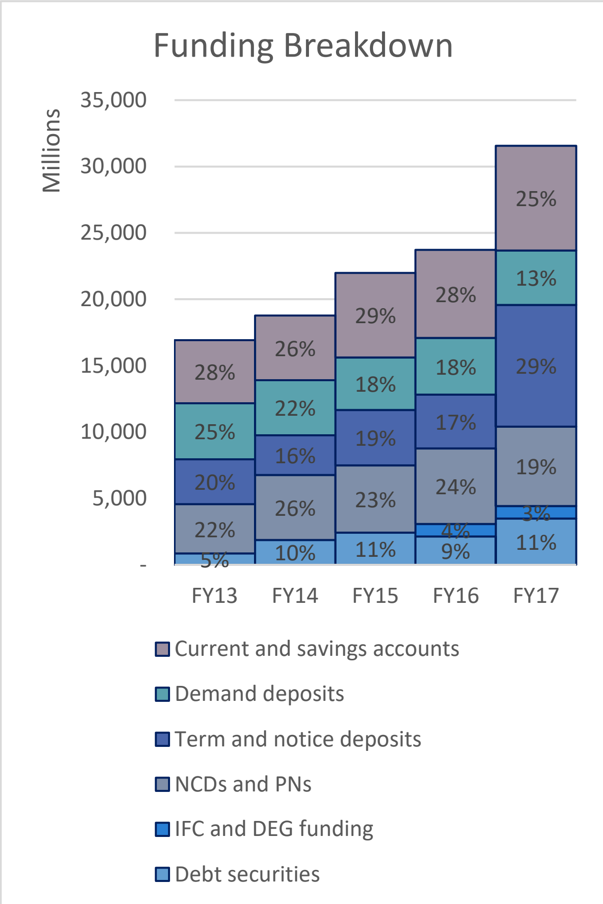
On a standalone basis, Bank Windhoek's net interest income grew by only 3.3% as a result of the drastic increase in funding costs as a result of low liquidity. Bank Windhoek makes up 91% of the net interest income, while Bank Gaborone contributed to 7% of net interest income and Cavmont 2%.

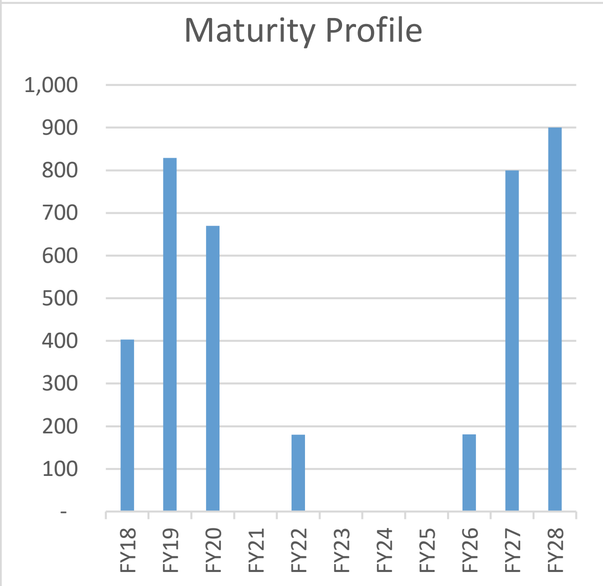
The larger than expected contribution from Bank Gaborone was due to a decline in funding costs. Interest expense fell by 26.7% from P173.4 million to P127.1 million in FY17, which was due to improved liquidity in Botswana.

Two years ago, the Botswana central bank was forced to devise a rescue plan to bailout the then embattled banking industry which was experiencing liquidity challenges. The Botswana central bank injected P2.30 billion in the industry and relaxed the reserve requirements to keep the industry afloat. Since then the situation has improved considerably. Although there are fears that liquidity might drop again, the current situation seems stable.

We expect interest income to continue growing over the next few years as private credit extension is expected to remain sluggish, specifically in Namibia. However, rising interest rates are normally positive for banks as their income adjusts immediately while their funding costs are slightly lagged. .

Interest Expense





Total funding increased by 34.9% to N$37.2 billion which is also mainly due to the acquisition of Bank Gaborone and Cavmont Bank. Bank Windhoek's funding base grew by 7.6% due to strong growth in term and notice deposits, which grew to N$10.55 billion and now make up 29% of the funding base.

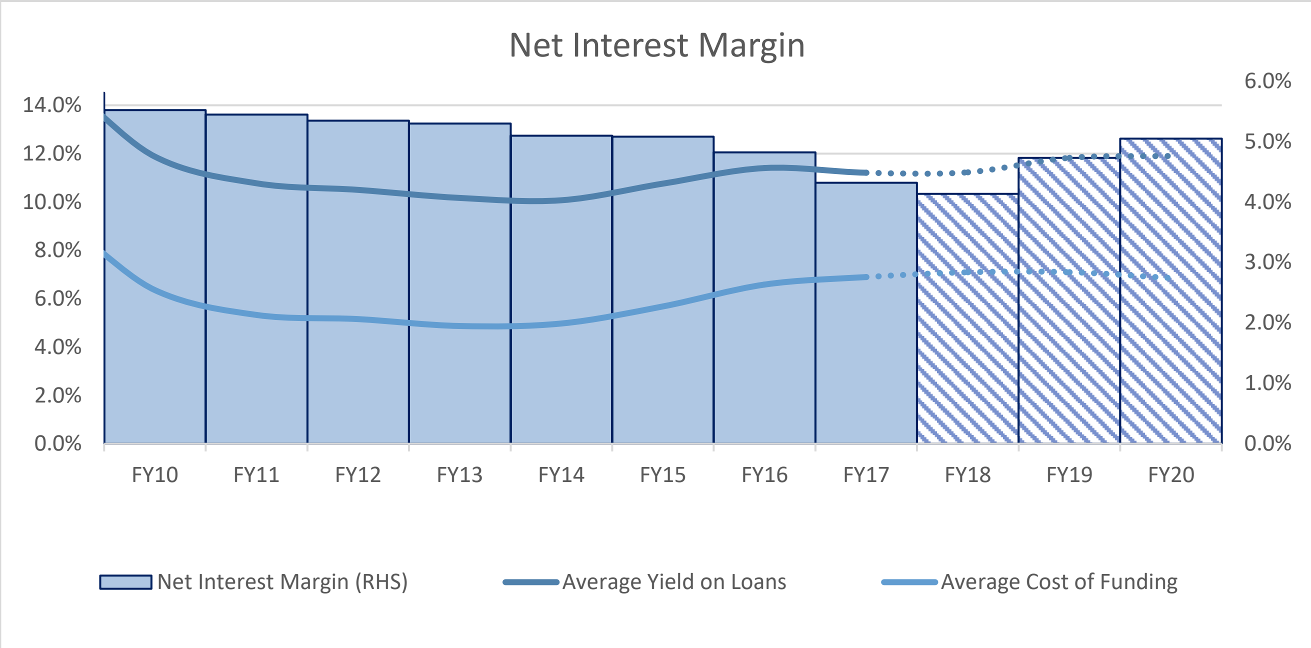
As witnessed with the other banks, the cheaper sources of financing, such as current and savings account did not see much organic growth, and more expensive funding sources were utilised in the low liquidity environment. The addition of long term debt securities has increased the average funding cost. However, this has had the additional benefit of lengthening the bank's funding profile and decreased its dependency on short-term funding.

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.

The GIPF funding currently consists of N$800 million in the BWJ1e27 and BWJ2e27 senior unsecured bonds at an average interest rate of 3-month Jibar +134 bps while the CIH funding is made up of two debentures yielding an average rate of 3-month Jibar + 131 bps.

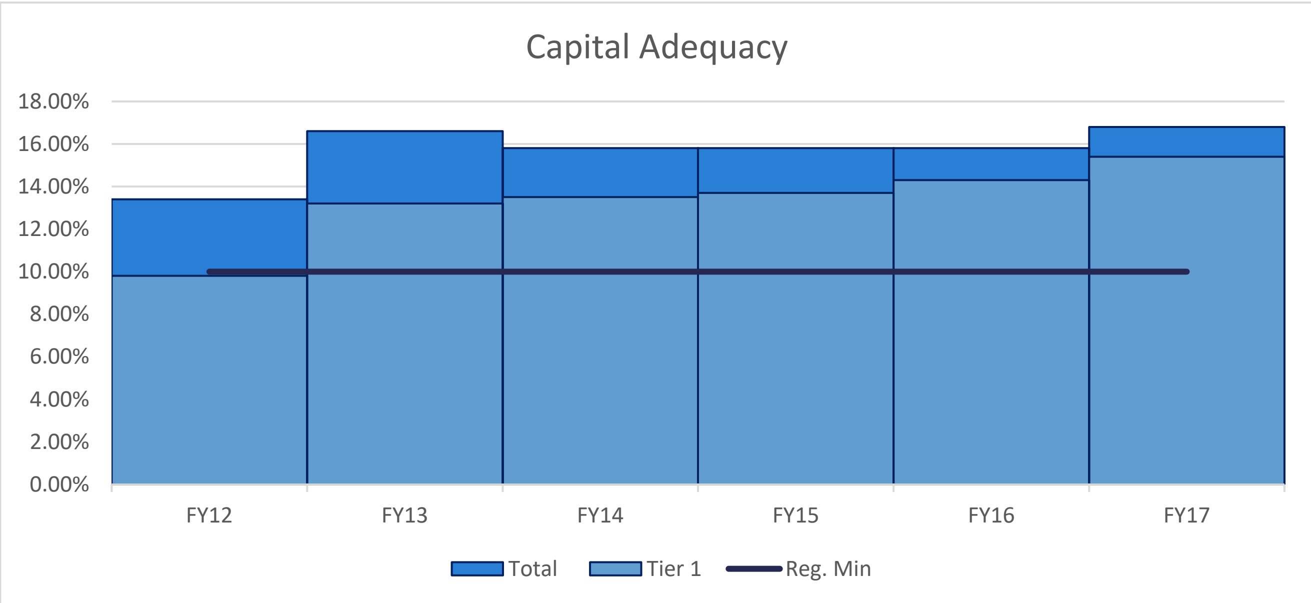
The sustainability of the current liquidity situation remains a key issue in the Namibian market. The chance of government revenue shortfalls, a larger than expected budget deficit and increased issuance to fund the deficit is a scenario which may repeat itself over the next few years. Should this scenario play out, short term interests rates could potentially rise back to the elevated levels seen in mid-2017.

Interest Margin

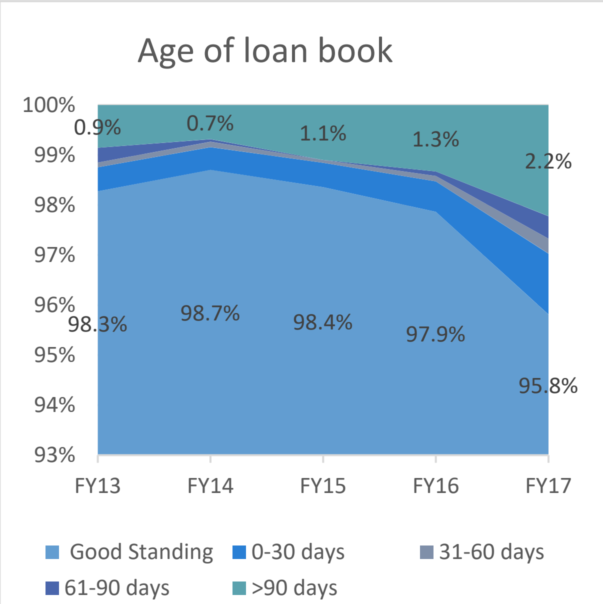


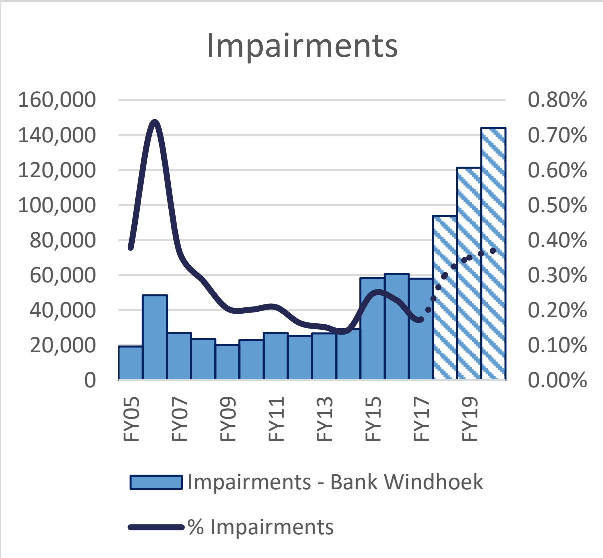
Due to the abovementioned factors. The Net interest margin contracted from 4.8% to 4.3% in FY17. Due to the addition of term and long-term debt security financing, we expect the margin to remain under pressure in the next financial year, before steadily improving over the forecast period to 5.0%.

Capital Adequacy



The group remains well capitalized with the total risk-based capital ratio of 16.6% and a tier 1 risk-based capital adequacy ratio of 15.4%, well above the regulatory requirements of 10.0% and 7.0% respectively.





Impairments

Impairment charges have been extremely low for nearly all the Namibian banks over the last decade. Bank Windhoek has been no exception. Due to the limited supply of loanable funds and large demand for loans over the last decade, Namibian banks have been able to cherry pick their customers and as a result have enjoyed very low credit losses. Management provided the example that in FY17, Bank Windhoek repossessed its very first property.

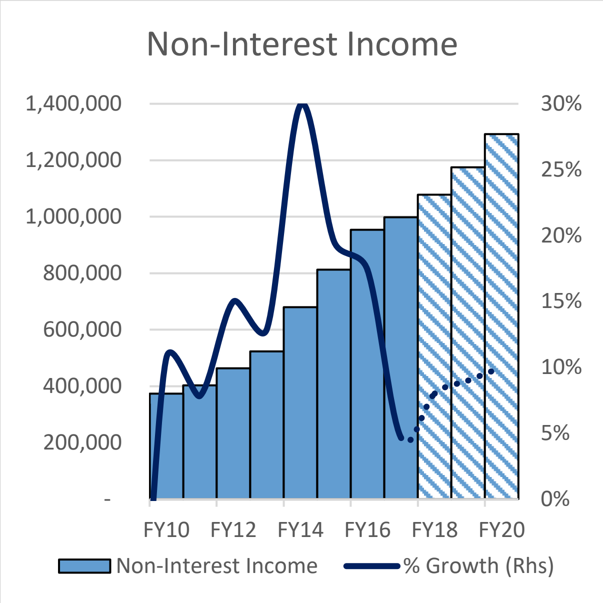
However, the age of the loan book has been weakening, which is in part due to the acquisitions of the Zambian and Botswana loans books, but also due to the slowing Namibian economy and a more stretched consumer.

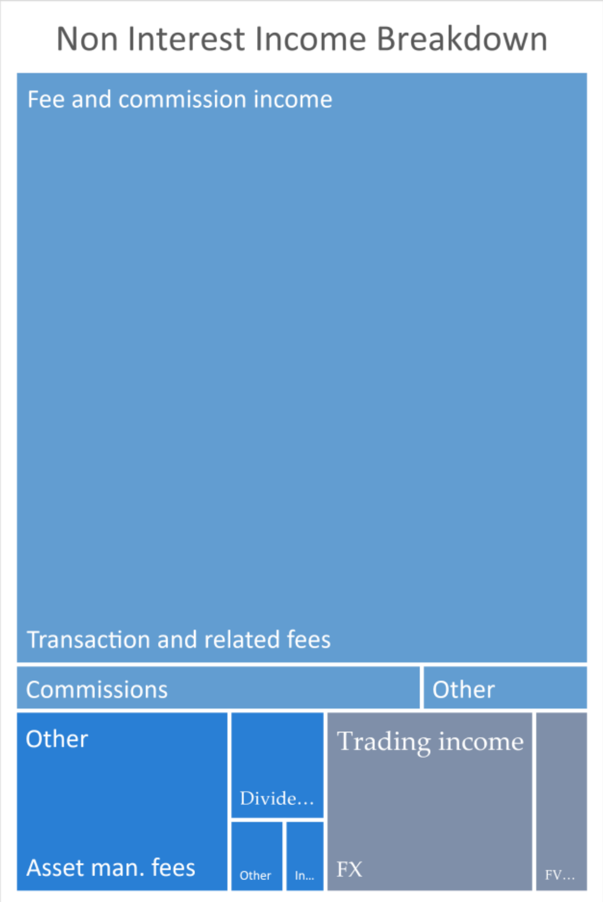
We believe the current difficult economic environment coupled with higher interest rates will result in higher impairment charges going forward. However, this effect is normally quite lagged and might take a year or two to manifest in the numbers.

Additionally, due to changes in accounting regulation, specifically IFRS 9 which relates to the provisions for bad debts, we believe there will be higher impairment charges going forward. The increase in impairments will stem not only from the 0-90 days outstanding loans, but also on the loans in good standing, which will also have to be provided for on a portfolio basis on a twelve-month expected loss model.

Although our expectations are for large absolute increases in impairments, as a percentage of the total book, we expect credit impairments to remain below 0.40%, well below other African peers.

Non-interest income





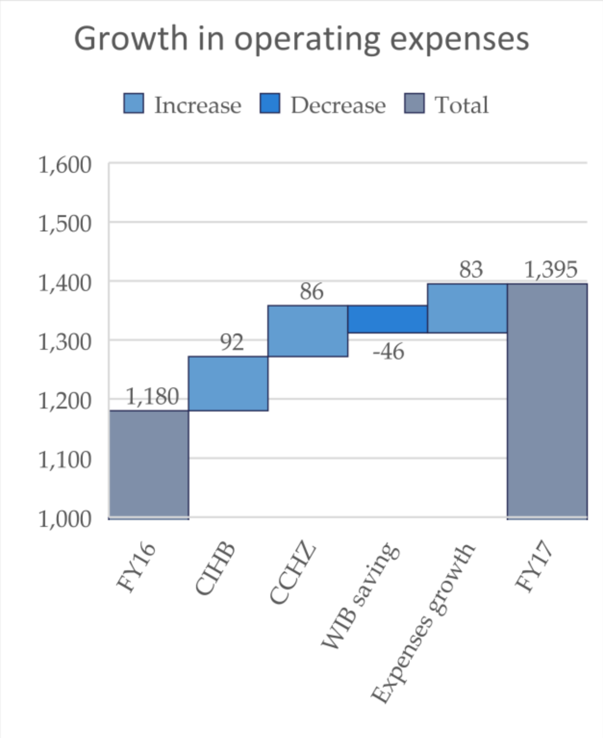
Non-interest income grew by 4.7% to N$998.2 million in FY17. On a normalised basis, non-interest revenue grew by 7.4% compared to the prior year. The relatively low growth figure was due to the high base set in the previous financial year, which was bolstered by trading revenues. As a result, non-interest revenue as a percentage of operating income declined to 38.5% in FY17 from 40.6% in FY16.

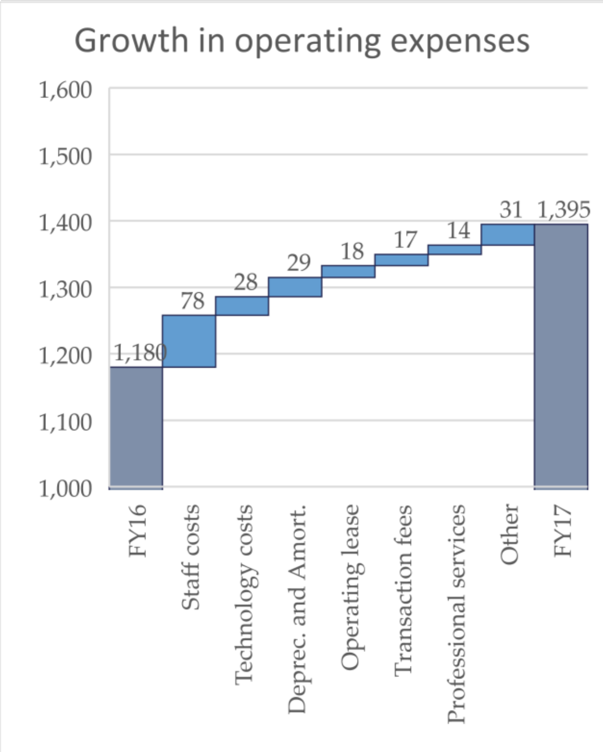
Fee and commission income still makes up the lion's share of non-interest revenue. Transaction fee income increased by 24.6% following robust growth from cards and electronic channels. This category made up 77.9% of non-interest revenue in FY17.

Bank Windhoek and Capricorn Asset Management launched the Capricorn Private Wealth Suite in June 2017. This offering focuses on retaining and attracting affluent customers and include, among others, a debit and credit card, electronic banking platform, mobile banking application, dedicated service desk and suite access. The addition of the Capricorn Private Wealth Suite is expected to be a meaningful contributor to non-interest revenue going forward.

Additionally, Capricorn Asset Management Botswana, which had some teething issues in the past, is expected to gain some traction as Bank Gaborone has gone through a rebranding initiative and will be marketing their banking and non-banking services more aggressively. Additionally, many of the competitors in this space have either scaled down or closed their Botswana operations, opening the door for competitors.

Operating expenses





Operating expenses grew by 18.2% due to the addition of the two banks, while the disposal of Welwitschia Insurance brokers had an offsetting effect. On a normalised basis operating expenses increased by 7.1% to N$1.21 billion evidencing management's continued focus on cost containment.

The addition of the two banks had a negative impact on cost to income, which rose from 50.2% to 53.9%. We expect this to improve slightly over time, as the African subsidiaries start to grow and gain the required economies of scale.

Staff costs remain the single largest expense and make up 51.8% of total expenses. Staff costs grew by 12.1% to N$723.0 million in FY17. The addition of the banks added about 510 employees to the group which brings the total number of people employed in the group to 2,098. On a normalised basis staff costs increased by only 4.0%

IT costs was the second driver of operating cost increases. The increase in technology-related expenses relates to the continued investment in IT infrastructure and service offerings, which focuses on increasing use of digital channels amongst others.

Outlook

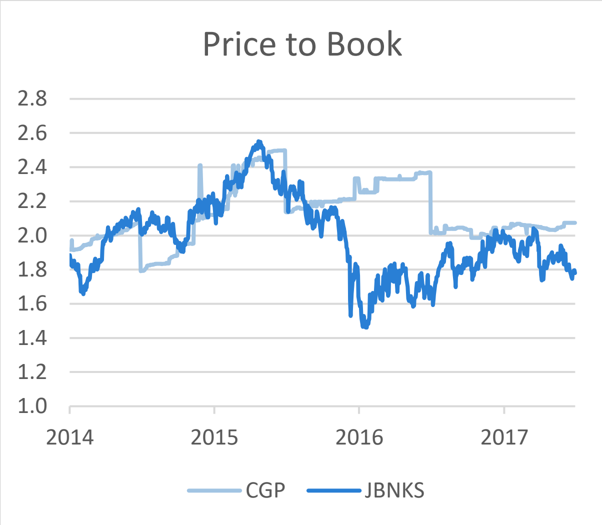
According to management the two new banks present a meaningful runway for growth. A large proportion of these markets remain unbanked, especially in Zambia where many small businesses still operate on a cash basis. Zambia also offers attractive double-digit net interest margins. Although Cavmont has not contributed significantly to the bottom line, Bank Gaborone has doubled their profit in the last year and both these entities are expected to make up a larger share of profits going forward.

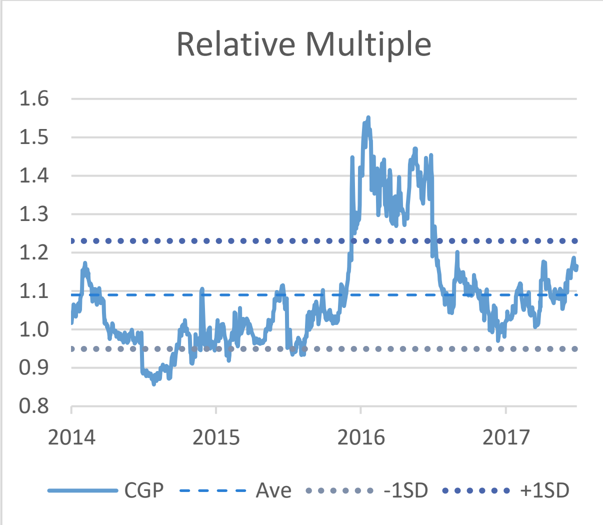
The situation in Namibia remains the biggest risk to our recommendation. We have projected mild improvement in the economic climate of Namibia over the next few years, albeit a slow and prolonged recovery. Liquidity remains a risk as large increases in government issuance may follow disappointing government revenue.

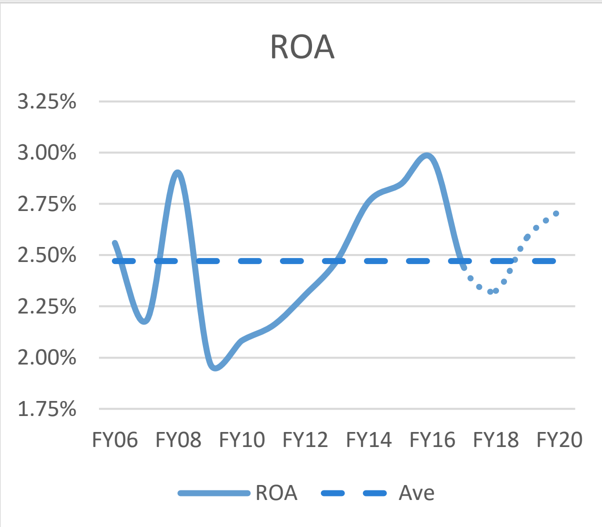
Management seem to share this view. Although we have seen some reprieve, the structural issues which have led to the slowdown have not yet been addressed, namely the bloated and consumptive government budget and lower spending on infrastructure. Management have reiterated that they will continue to follow a prudent credit issuance policy, although they plan to increase their risk appetite slightly. Management have warned that the years of strong credit growth are likely behind us and we will likely see more subdued credit growth which will lead to lower returns on assets and return on equity.

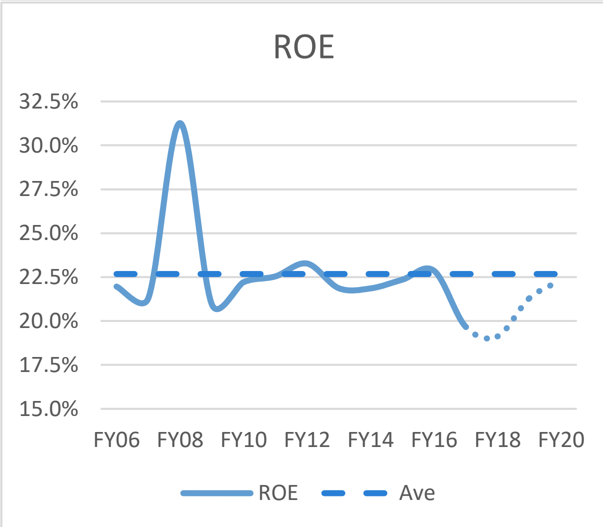
Valuation and recommendation

For the purpose of valuing the company, we establish a **cost of equity of 14.6%,** which consist of a **risk-free rate of 10.0%**, an **equity risk premium of 4.6%.** Based on this cost of equity, a **long-term growth rate for the company of 9.0%**, and a **long term sustainable return on equity of 19.0%** we believe a Price to Book multiple of 1.78x can be justified. Given expected book value per share of 1,133 cps in FY18, we derive a target price of N$c2013 per share. Coupled with an expected dividend of 74cps, we expect a **total return of 14.9% in FY18**.









Overall, our expectations regarding private sector credit growth and interest rates in Namibia point to improving conditions. Although the subsidiaries are still small, they present good opportunity for growth and will likely become a larger part of the company over the next few years to come. Given that our expected return being slightly higher than required return on equity, we change our recommendation on to **BUY** on the Capricorn Group.

Valuation Sensitivity

Target Price		ROE						
		18.25%	18.50%	18.75%	19.00%	19.25%	19.50%	19.75%
Growth	7.5%	1,709	1,748	1,788	1,828	1,868	1,907	1,947
	8.0%	1,752	1,795	1,837	1,880	1,923	1,966	2,008
	8.5%	1,802	1,849	1,895	1,941	1,987	2,034	2,080
	9.0%	1,862	1,912	1,963	**2,013**	2,063	2,113	2,164
	9.5%	1,933	1,988	2,043	2,099	2,154	2,209	2,264
	10.0%	2,019	2,080	2,142	2,203	2,264	2,325	2,386
	10.5%	2,127	2,195	2,264	2,332	2,401	2,469	2,538

Expected Return		ROE						
		18.25%	18.50%	18.75%	19.00%	19.25%	19.50%	19.75%
Growth	7.5%	-1.8%	0.3%	2.5%	4.7%	6.9%	9.1%	11.3%
	8.0%	0.5%	2.9%	5.3%	7.6%	10.0%	12.3%	14.7%
	8.5%	3.3%	5.9%	8.4%	11.0%	13.5%	16.1%	18.6%
	9.0%	6.6%	9.4%	12.1%	**14.9%**	17.7%	20.5%	23.2%
	9.5%	10.5%	13.6%	16.6%	19.6%	22.7%	25.7%	28.8%
	10.0%	15.3%	18.6%	22.0%	25.4%	28.7%	32.1%	35.5%
	10.5%	21.2%	25.0%	28.7%	32.5%	36.3%	40.1%	43.8%

Price to book multiple		ROE						
		18.25%	18.50%	18.75%	19.00%	19.25%	19.50%	19.75%
Growth	7.5%	1.51	1.54	1.58	1.61	1.65	1.68	1.72
	8.0%	1.55	1.58	1.62	1.66	1.70	1.73	1.77
	8.5%	1.59	1.63	1.67	1.71	1.75	1.79	1.84
	9.0%	1.64	1.69	1.73	**1.78**	1.82	1.87	1.91
	9.5%	1.71	1.75	1.80	1.85	1.90	1.95	2.00
	10.0%	1.78	1.84	1.89	1.94	2.00	2.05	2.11
	10.5%	1.88	1.94	2.00	2.06	2.12	2.18	2.24

Financial Statement Summary

Income Statement

	Actual		Forecast		
in N$ 000s	**2016**	**2017**	**2018**	**2019**	**2020**
Interest and similar income	2,963,244	3,626,477	4,059,963	4,708,240	5,288,223
Interest and similar expense	(1,505,102)	(1,976,980)	(2,195,732)	(2,561,610)	(2,790,345)
Net interest income	**1,458,142**	**1,649,497**	**1,864,231**	**2,146,630**	**2,497,878**
%Growth	15.1%	13.1%	13.0%	15.1%	16.4%
Impairment losses	(60,779)	(57,998)	(93,898)	(121,394)	(144,139)
Non-Interest Income	**953,804**	**998,185**	**1,078,040**	**1,175,063**	**1,292,570**
Operating expenses	(1,180,153)	(1,395,005)	(1,492,655)	(1,641,921)	(1,806,113)
Operating profit	**1,171,014**	**1,194,679**	**1,355,717**	**1,558,378**	**1,840,195**
%Growth	19.6%	2.0%	13.5%	14.9%	18.1%
Share of profit from joint ventures	1,405	1,094	1,858	2,137	2,416
Share of profit from associates	97,123	78,100	128,445	147,712	166,979
Profit before tax	**1,269,542**	**1,273,873**	**1,486,020**	**1,708,227**	**2,009,590**
Income tax expense	(364,494)	(356,252)	(456,311)	(613,759)	(795,715)
Profit for the year	**905,048**	**917,621**	**1,029,709**	**1,094,468**	**1,213,874**
%Growth	20.2%	1.4%	12.2%	6.3%	10.9%
Net gains on available -for - sale financial assets	**33,465**	**15,383**	-	-	-
Total comprehensive income	**938,513**	**931,055**	**1,029,709**	**1,094,468**	**1,213,874**
Headline Earnings	938,513	915,672	1,029,709	1,094,468	1,213,874
%Growth	20.1%	-0.8%	10.6%	6.3%	10.9%
EPS (c)	**181.2**	**180.4**	**204.3**	**217.1**	**240.8**
HEPS (c)	**181.2**	**181.6**	**204.3**	**217.1**	**240.8**
Dividends declared per share (c)	**66.0**	**68.0**	**74.0**	**78.0**	**87.0**

Balance Sheet

in N$ 000s	Actual		Forecast		
	2016	**2017**	**2018**	**2019**	**2020**
ASSETS					
Cash and balances with central bank	1,169,170	1,543,070	1,356,120	1,056,120	756,120
Financial assets designated at fair value	2,408,196	3,968,635	3,202,456	3,329,615	3,457,051
Investment securities	133,998	149,381	2,577,682	1,997,092	692,373
Derivative financial instruments	229	-	-	-	-
Due from other banks	1,006,602	2,198,596	1,315,173	1,506,790	1,673,520
Loans and advances to customers	26,598,023	33,433,922	36,183,430	40,131,184	45,021,704
Investment in associates	248,297	245,782	-	-	-
Other assets	769,138	1,081,841	990,556	1,044,938	1,100,407
Total assets	**32,333,653**	**42,920,914**	**45,625,416**	**49,065,739**	**52,701,175**
LIABILITIES					
Derivative financial instruments	6,068	-	3,900	4,984	4,442
Due to other banks	447,129	317,914	239,297	275,679	218,529
Other borrowings	1,164,051	1,165,064	1,200,000	1,200,000	1,200,000
Debt securities in issue	2,215,345	4,105,577	4,200,000	4,200,000	4,200,000
Deposits	23,724,128	31,571,561	33,781,570	36,484,096	39,402,824
Other liabilities	502,893	545,875	487,622	486,715	485,843
Total liabilities	**28,059,614**	**37,709,999**	**39,912,389**	**42,651,474**	**45,511,637**
EQUITY					
Share capital and premium	512,045	684,665	684,665	684,665	684,665
Non-distributable reserve	213,034	248,186	348,186	348,186	348,186
Distributable reserve	3,548,960	4,123,531	4,680,176	5,381,414	6,156,687
Non-controlling interest	0	154,533	151,617	152,375	169,076
Total shareholders' equity	**4,274,039**	**5,056,382**	**5,713,027**	**6,414,265**	**7,189,538**

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