Risk Report 2023

Capricorn Group

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About this risk report

This is our third standalone risk report ("the report") for the Capricorn Group Ltd ("the Group" or "Capricorn Group"). The report reflects our approach to risk and application of the principles contained in the King IV Report on Corporate Governance™ for South Africa, 2016 ("King IV™")[1].

We focus on the way risk management contributed to the Group delivering on its purpose and ensured that risk management continued to create value for the financial year from 1 July 2022 to 30 June 2023 ("the year"). The report is aimed primarily at providers of financial capital.

The entities that constitute the Group are set out on page 8 of the integrated annual report.

The risk report forms part of a suite of reports that are referenced throughout this report:

- Integrated annual report with summarised annual financial statements
- Annual financial statements
- Governance report
- King IV™ index

This report was compiled with input from the Group principal risk owners ("GPROs") and executive leadership team, and finally approved by the board on 12 September 2023. The board acknowledges its responsibility to ensure the integrity of the report.

Additional information is available online at https://www.capricorn.com.na/Pages/Investor-Relations/Integrated-Reports-and-Interim-Results.aspx. For more information or feedback on this report or any other elements listed above, contact Marlize Horn, tel: +264 61 299 1226, or investorrelations@capricorn.com.na.

"Our focus remained on **proactive financial risk and capital management** and prudent cost control to **positively position ourselves** in the face of global and regional volatility."

Message from the executive officer ERM

Our risk management approach ensures consistent and effective management of risk and is underpinned by clear accountability and independent oversight. Risk management is embedded enterprise-wide, tailored for all legal entities and applies to all organisational units and levels. Our risk management framework is an essential enabler for the execution of our strategy.

Our year in review

The year was dominated by the impact of rising inflation and interest rates globally, the build-up of which began during the COVID-19 pandemic and was accelerated by the outbreak of war in Ukraine in February 2022. There was a return to a near normal operating environment as the social distancing measures were reduced.

The financial effects of the pandemic continued to linger in pockets of the economy and a slow recovery was disrupted by the outbreak of war in Ukraine, which ushered in a fresh series of crises in food and energy supply and prices. Namibian inflation rose from 4.5% to 7.2% in the period March 2022 to March 2023[1] while in Botswana inflation decreased from 14.3% to 4.6% over the period July 2022 to June 2023[2].

The South African Rand weakened from R15.2 to R19.9 to the US dollar over the period June 2022 to June 2023[3]. Most Southern African currencies have weakened against the US dollar, exacerbating inflationary pressure as the cost of imported goods increased. High or rising inflation prompted interest rate hikes in most countries, a trend that is still evident. In Namibia, the repo rate increased from 4.75% to 7.75% over the period July 2022 to June 2023[4]. These inflationary conditions placed both consumers and businesses under increased pressure.

The mining sector performed strongly, and tourism bounced back. The retail sector also recovered, which impacted positively on higher banking transaction volumes. There is optimism regarding Namibia's prospects in the energy sector with oil and gas discoveries and hydrogen projects. The benefits from these energy sector projects are expected to be significant. However, despite this optimism, uncertainty about stability in the region remains, most recently around the stability of the South African energy supply and electricity grid, and business confidence remains low, with larger businesses appearing to delay investment.

Our focus remained on proactive financial risk and capital management and prudent cost control to positively position ourselves in the face of global and regional volatility. This contributed to our strong financial performance with an increase in net interest income and a reduction in impairment charges.

Credit risk

Bank Windhoek and Bank Gaborone maintained their efforts to protect and improve their asset quality. The Group's non-performing loan ("NPL") ratio (excluding interest in suspense) was 4.5%, which can be attributed to our deliberate focus on mitigating credit risk. As the Namibian economy continued to recover in 2023, we experienced a lower level of NPLs. In Botswana, credit risk remained elevated, and the NPL ratio deteriorated somewhat.

The credit loss rates of Bank Windhoek and Bank Gaborone of 0.54% and 0.37% respectively, reflect sound management of the NPL to ensure losses are kept within risk appetite.

Liquidity risk

Namibia's liquidity shortage has been alleviated due to a significant special dividend declared by Namibia Breweries following the Heineken transaction. Despite higher interest rates in South Africa, higher levels of capital tended to remain within Namibia. This created conditions for lower cost of funding which improved our net interest margin. Despite a 300bps increase in repo rate, Bank Windhoek's cost of funding increased to only 6.16% at end June 2023 (June 2022: 4.25%). Bank Windhoek grew its funding from N$40.39 billion at end June 2022 to N$40.66 billion at end June 2023.

In contrast, Botswana continues to face market liquidity challenges, which inhibits private sector expansion. Botswana has lower and more volatile liquidity, as the lack of foreign exchange controls enables investors to transfer money offshore and regionally, with fewer constraints. Bank Gaborone's cost of funding deteriorated to 7.56% at end June 2023 (June 2022: 4.91%) and grew its funding to N$6.80 billion by 30 June 2023 (N$6.51 June 2022).

The Group maintained sound liquidity levels and buffers, with a loan-to-funding ratio of 89.2% as at 30 June 2023 (2022: 87.2%).

Risk enhancements for 2023

The board reviewed the Group's risk appetite statement to ensure the quantitative measures and thresholds align with our strategy and that our budget plans are, in turn, also aligned. We made changes to our quantitative risk appetite in line with our growth expectations for 2023. There were no material changes to our qualitative appetite statements.

We continued to invest in our cyber resilience and regulatory compliance capabilities. We conducted an independent assessment of our AML frameworks and made several enhancements which included an improved policy framework and enterprise-wide role-based training programmes.

On the ethics and conduct risk front, we initiated an independent

[1] *Namibia Consumer Price Index Bulletin. (2023). Available at: https://nsa.nsa.org.na/wp-content/uploads/2023/04/Namibia-CPI-Bulletin-March-2023.pdf*

[2] *tradingeconomics.com. Botswana Inflation Rate - July 2023 Data - 1997-2022 Historical - August Forecast. [online] Available at: https://tradingeconomics.com/botswana/inflation-cpi#:~:text=Botswana%20Inflation%20Continues%20to%20Slow*

[3] *South African Reserve Bank. Selected historical rates from www.resbank.co.za. Available at: https://www.resbank.co.za/en/home/what-we-do/statistics/key-statistics/selected-historical-rates*

[4] *Bank of Namibia -www.bon.com.na. Repo Rate History. Available at: https://www.bon.com.na/Bank/Monetary-Policy/Repo-rate-history.aspx#mainContentWrapper*

assessment of our procurement process in Namibia which confirmed our sound practices, implemented an updated ethics training programme, and commenced with another annual instalment of our voluntary internal Risk Culture builder certification programme which was well-attended by volunteers from across the Group.

Stress tests are used to measure the impact of hypothetical scenarios, such as recessions or pandemics. This year, we continued to enhance our integrated stress testing model and, therefore, enhanced the information provided to committees and the quality of our decision making. We have also bolstered our financial risk skills, experience, and capacity through key appointments.

Environmental, social and governance ("ESG") risk and impacts are increasingly important. In 2023, we established a sustainability integration programme which includes within its scope the development of an environmental risk management framework and the necessary infrastructure to make sustainability disclosures as-and-when required.

Looking ahead

The volatility and cyclicality of the Namibian and Botswana economies have recently come into focus. For these relatively small, open economies, the importance of the mining and commodity cycles and their related industries cannot be overstated. Activity in the mining sector has increased, auguring well for headline gross domestic product ("GDP") growth over the next several years, if the expected global economic downcycle is not too severe.

While we are optimistic about our prospects, we continue to monitor factors in the region which may impact negatively on our operating environment such as political and social trends, the stability of energy supply, other supply chain risks and the effects of climate change.

We also expect an increase in regulatory and industry standards requirements. Namibia is required to meet certain FATF requirements by October 2023, failing which Namibia might be greylisted which will bring about enhanced AML measures. On the ESG front, the IFRS sustainability standards S1 and S2 will bring about greater disclosure requirements for companies globally and over time.

We will continue to manage our credit risk prudently including a focus on improving our online credit application processes and vetting capabilities and the centralisation of key processes and functions. We will also make use of technology and mathematical modelling to improve our credit risk management.

While inflation triggers higher interest rates, which increases net interest income, it also has the effect of slowing down loan demand and increases the risk of default, thus the outlook for residual credit risk, is anticipated to remain high.

Factors that contribute to this view include the challenging economic conditions in certain sectors and countries, uncertainties regarding the Russia/Ukraine war, local currency depreciation, inflationary pressures and high interest rates. We expect these conditions to negatively impact arrears, provisions and bad debt.

Our risk management capabilities continue to develop to keep pace with risk management trends with the goal of supporting the successful execution of our strategy through better decision making and effective risk management. To this end, we have prioritised enhancements in the areas of integrated stress testing, environmental risk management, financial crime prevention and cyber resilience, ethics and the principles for effective risk data aggregation and risk reporting.

Finding, attracting, and retaining the right skills to support our strategic ambitions will likely remain challenging. This includes financial, risk management and IT skills. We employ various strategies to overcome this obstacle including close cooperation and partnerships with universities, internships, outsourcing and partnering with international firms. Our enterprise risk management operating model maximises the use of risk resources across the Group.

In conclusion

In 2023, we mitigated our risks effectively, and our business activities have been managed within the board-approved risk appetite. Our embedded Group Risk Internal Control and Assurance Framework ("GRICAF") supported our risk management and addressed our financial and non-financial risks thanks to our trained and risk-aware employees.

Our capital and liquidity positions remained sound and within or above board-approved ranges throughout the year. The Group maintains a healthy capital buffer to adhere to regulatory requirements and our internal risk appetite. We remain focused on capital optimisation to improve the efficacy with which capital is employed.

Nico van der Merwe
Group executive officer: Enterprise risk management ("ERM")

Our risk philosophy and approach

Risk-taking is an integral part of conducting business, and the Group relies on sound risk management practices to enable the safe and responsible execution of its strategy. We continue to approach risk systemically and holistically, focusing on "what must go right". Sound corporate governance, board and senior management support and a formal system of risk management, that includes the three lines model, enable accountability and appropriate risk responses at every level of the organisation. Our deliberate focus on Risk Culture building fosters a risk-aware work environment where everyone contributes to risk management and not only the central risk and assurance functions.

Our risk management approach remains anchored in our purpose: to improve lives through leadership in financial services by being Connectors of Positive Change. It is guided by our strategic choices, a strong ethical culture, entrepreneurial spirit, and commitment to transparency. Using technology and data, we continuously evolve our practices to identify and manage risk exposures and corresponding capital needs.

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

The GRICAF is our framework for enterprise risk management ("ERM"), and it adopts conventional risk management practices from Basel II/ III and the King IV Principles. Risk management practices are guided by business strategy and objectives and formal risk capacity, appetite and tolerance statements.

The application of GRICAF is tailored for each Group subsidiary according to the size, complexity, local operating conditions and regulation of the business. Maintaining common standards promote consistency and aggregation of risk profiles across the Group.

We apply the IIA's three lines model (The Institute of Internal Auditors, 2020), previously referred to as the "three lines of defence". Operating units form the first line are responsible for managing risks, while central risk and compliance management functions form the second line. They are responsible for risk management policies, standards, infrastructure and processes and oversight of first line conformance. The Group Internal Audit function forms the third line. Assurance functions such as internal audit, management assurance and compliance have varying degrees of independence from operating units and perform monitoring activities under a combined assurance model.

GRICAF objectives

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

> Enable the Group to execute its strategy.
> Optimise efficiency by effectively using risk resources in the Group.
> Directly contribute to creating end-customer value by eliminating unnecessary tasks in the process.
> Build standard risk management accountability, principles and processes into the business management process.
> Ensure that risks and the impact on capital are understood and managed proactively within acceptable risk capacity, appetite and tolerance.

Principal risks

The main risk types across the Group are referred to as principal risks. A Principal Risks Policy and individual Principal Risk Frameworks define our risk management and control system. The Principal Risks Policy sets out the risk types and roles and responsibilities associated with managing the principal risks, while the individual Principal Risk Frameworks describe aspects specific to each principal risk.

Appointed senior executives are accountable for each principal risk. A formal and defined risk and control framework per principal risk outlines the risk management system, including relevant key controls, related key risk indicators and thresholds, and roles and responsibilities concerning the principal risk. Risk Management Frameworks are developed using a systemic approach to risk and control framework design to ensure that our risk management practices support and sustain the risk management system's performance objectives. Governance requires that we report on each principal risk at least quarterly in terms of risk profile, trends and red flag areas.

There are 14 principal risks. These are reported on in more detail from page 12.

Embedding a Risk Culture

Our corporate culture is the bedrock of our conduct both inside the organisation and in the market. The Capricorn Way encapsulates our common beliefs and desired behaviours. Through the GRICAF, we place emphasis on behaviours that constitute a sound Risk Culture and ethical conduct through our Risk Culture building and ethics programmes. Both programmes target all employees to ensure that there is clear understanding of each person's role in managing risk and conducting business ethically in any operating context. The aim of the programmes is to create the necessary understanding and awareness of factors that impact on decision-making and to support colleagues in making the correct choices and decisions in their operating environment.

2023 progress

Culture: The enterprise-wide ethics programme was implemented, comprising Group-led and subsidiary-specific activities. Our Group's internal voluntary certified Risk Culture builder programme continued to attract participants. Forty volunteers from Namibia and Botswana graduated in the 2023 programme, and 64 volunteers enrolled in the 2024 programme.

Risk frameworks: Cyber risk was elevated to a principal risk in 2021, and a formal risk management framework was implemented during the year. We delivered on this year's objectives in our multi-year cyber resilience programme.

Technology and data: Under banking regulations, stress testing is a key requirement (Basel III, Pillar 2). We enhanced our ability to conduct integrated stress testing. These enhancements are still being embedded, and they will enable us to assess risk impacts in an integrated manner, for example, across product portfolios, the balance sheet and income statement. They will allow us to assess the implications of decisions on capital adequacy and capital returns.

Our regulatory context for risk

Basel II/III phases

As reported previously, the Bank of Namibia embarked on the phased implementation of Basel III in 2017. In terms of Basel III Pillar 1, the bank follows the standardised approach according to the Banking Institutions Determination 5A (capital requirements for credit, market and operational risks) ("BID-5A"). BID-5A became effective on 1 September 2018 and incorporated a phased approach for the Basel III capital ratios.

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

The Bank of Namibia requested detailed information on liquidity risk, which will inform future updates to BID-6 to accommodate the Basel III liquidity ratios. Bank of Namibia issued draft determination (BID-6A) on Basel III Liquidity Requirements for Domestic Systematically Important Banking Institutions for industry commentary during 2022. The purpose of BID-6A is to introduce the requirements of the Basel III liquidity standards namely, the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). BID-6A also stipulates additional liquidity risk management tools for compliance by the Domestic Systemically Important Banks ("DSIBs"). The draft BID 6A is not yet effective, but has an anticipated date of implementation of January 2024, although this has not yet been published.

Banking regulations in Botswana are based on Basel II, and the status quo was maintained throughout the year.

2023 progress

The Bank of Botswana is yet to engage the industry on implementing Basel III, as was indicated during the bilateral meeting to discuss the Basel III liquidity ratios in December 2022. The Bank conducted an industry survey on the net stable funding ratio and the liquidity coverage ratio to establish the readiness of the market. Industry awaits feedback on the survey from The Bank of Botswana.

Regional regulatory risk matters

In the Namibian jurisdiction the focus has been on the mutual evaluation and the draft Data Protection Bill that was circulated. We provided commentary on the draft Data Protection Bill and have begun to assess our readiness against global practices to better understand the potential impact.

The mutual evaluation by the Eastern Southern Africa AML Group ("ESAAMLG") for Namibia was completed and the final report issued in September 2022. Following the review and adoption of the Mutual Evaluation Report, Namibia was given a year to close all findings in order to avoid a targeted Financial Action Task Force ("FATF") review and possible greylisting.

To effectively mitigate the risk of a targeted review, Namibia's cabinet approved a National Action Plan in December 2022, which includes proposed legislative changes and enhanced effectiveness measures by law enforcement agencies to address the findings.

To this end, 11 amendment acts were prepared by the relevant national stakeholders for public consultations and have commenced. This includes:

> The Financial Intelligence Act, 2012 (Act. No 13 of 2012), as amended ("FIA").
> The Prevention and Combating of Organised Crime Act, 2004 (Act No. 29 of 2004), as amended.
> The Prevention and Combating of Terrorist and Proliferation Activities Act, 2014 (Act No. 4 of 2014).
> The Banking Institutions Act, 2023 (Act 13 of 2023).
> The Payment Systems Management Act, 2023 (Act 18 of 2023).

The Financial Intelligence Centre has assured stakeholders that closing gaps in the mutual evaluation findings is a top priority for the government.

In Botswana, the focus has been on compliance with the Data Protection Act by 15 September 2023. Engagements have been held with the Data Commissioner to agree on a migration plan for the hosting of systems in Botswana.

Alignment with King IV™

The Group Governance Framework and the GRICAF support the principles of King IV™. Principle 11 requires that risk be governed in a way that supports the Group in setting and achieving its strategic objectives.

In the current year, the board's nominations committee ("Nomco") directed an evaluation of the boards, committees, directors and the Group's company secretary on the basis of providing an opportunity at every board and board committee for consideration, reflection and discussion of its performance, its chair and its members as a whole. The summary reports were presented to Nomco and indicated a satisfactory outcome of the appraisal. Recommendations were converted into an action list for each board committee.

How we govern and manage risk

The board recognises that risk relates to the uncertainty of events and that these could potentially positively or negatively impact our ability to create value. The board allocates the responsibility for oversight and governance of risk management to the BARCC. The Group CEO is the senior executive responsible for implementing a sound risk management framework.

BARCC

The BARCC is a board committee mandated to oversee risk management, including risk appetite and IT risk, as referred by the Group board IT committee ("GBITC"). It also has oversight of compliance at Capricorn Group. The Group chief financial officer ("Group CFO"), Group Executive Officer ERM, head of internal audit, and the external auditors attend all BARCC meetings. They have unfettered access to the BARCC chairperson and the board. Read more about the BARCC mandate and activities in the governance report, available online.

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

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

2023 progress

The Group ERM operating model design was evaluated as part of an independent operating model review. It was found to be appropriate for the size, complexity and nature of the business of the Group.

The Group risk committee practices evolved further during the year. Our standard reporting templates were enhanced to reduce the volume of information while improving the focus on key issues. These enhancements promote more focused discussions at the management and board risk committees, leading to improved insights and decisions.

The Cyber Principal Risk Framework is being embedded through the cyber resilience programme, while the Environmental risk framework is in development and is expected to be implemented in 2024.

Overview of ERM

The board assumes responsibility for risk governance and sets the direction for how the Group approaches risk. Various policies and guidelines direct the way we govern risk, and these are regularly reviewed in line with our document governance requirements.

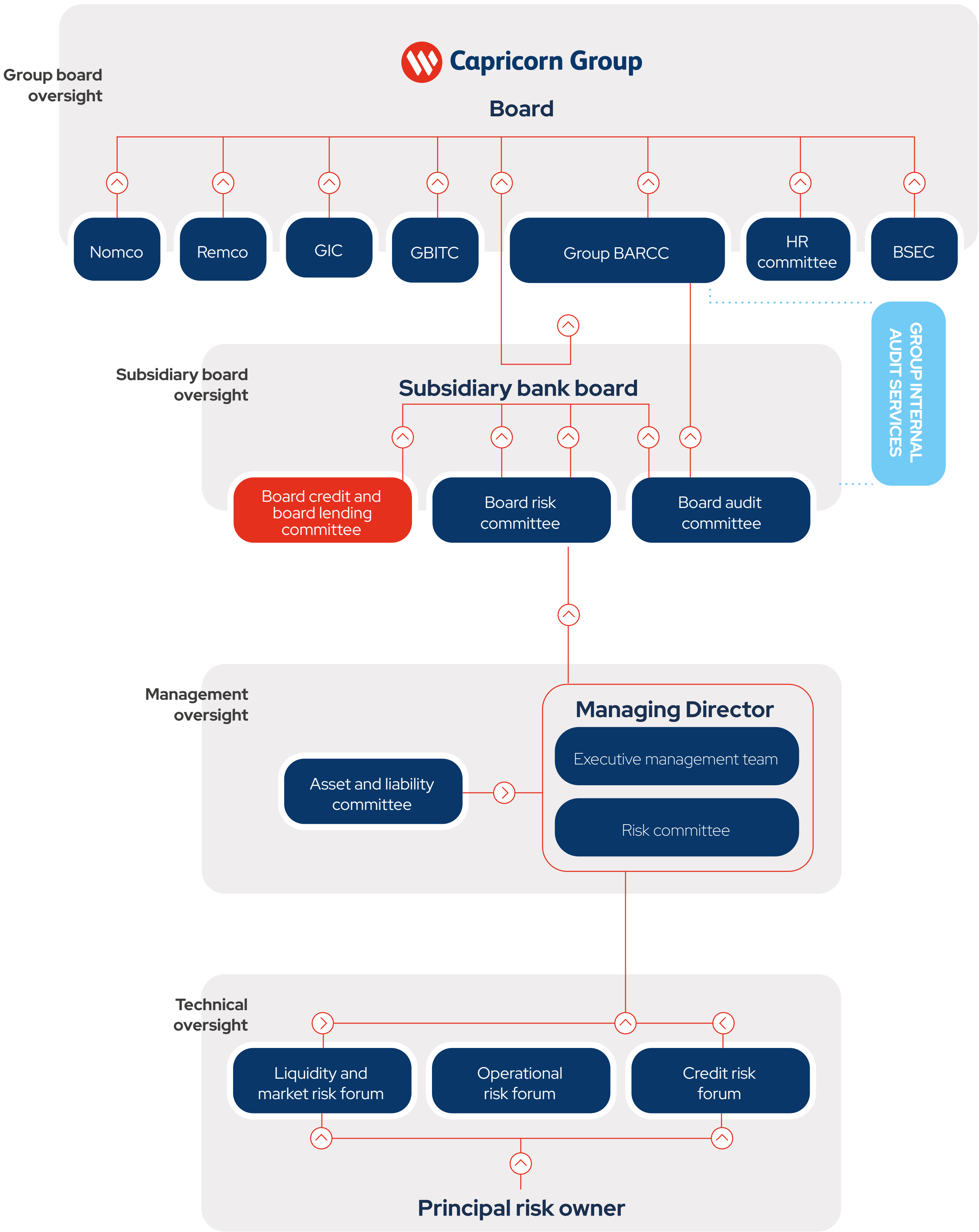
The GRICAF processes and enabling infrastructure allows us to proactively identify and act on risks and opportunities that may impact the Group's strategic actions. The GRICAF target maturity level is one of dynamic risk management. A dynamic maturity level is characterised by continuous improvement of methods and procedures, proactive risk identification and reward, assured regulatory delivery and evidence of industry risk behaviours. This leap from an established, process-orientated framework to a responsive and dynamic risk management framework is supported by investments in technology and by building an effective Risk Culture.

The board is ultimately accountable for the adequacy of the GRICAF. The board receives assurance on the adequacy of the GRICAF through combined assurance from the risk, management assurance, compliance and internal audit functions. Together, these internal functions give the board a view of how various role players execute the GRICAF practices.

The board also draws on the perspectives of external auditors and regulators who conduct regular reviews of the operating entities in the Group. The combined internal and external inputs provide the board with an overall evaluation of the implementation and effectiveness of the risk policies and frameworks.

The Basel risk type frameworks are assessed through self-assessments by the Group's banks. The self-assessments are based on a combination of regulatory requirements and sound practices. Each bank's risk committee reviews self-assessment outcomes and monitors the remediation of significant identified gaps. Detailed action plans with owners and due dates ensure rigorous remedial actions. The self-assessment results are reported to the Group risk committee, and progress on implementing remediation action is monitored centrally within the banks.

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



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

The risk management value chain

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

The main risk categories, being the principal risks, are contextualised for each operating unit to ensure that the Principal Risk Management Framework is relevant. Not all risk categories apply equally to every operating unit.

The standard practices of the GRICAF provide a common language and understanding of risk. This allows the Group to standardise and aggregate risk reporting to enable effective oversight by governance structures at all levels.

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

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

Risk management enablers

Enablers of a dynamic risk management system

GRC system	Group risk committee and the Group principal risk owner ("GPRO") role	Centres of expertise
The Group has deployed several systems to support its risk management activities over and above the inherent risk management functionalities in business systems. There are dedicated systems to support each of the risk management functions. ERM has a rich data environment which is continuously being enhanced and expanded	The GPRO role was created to allocate accountability and coordinate the execution of the Group risk committee mandate. The executive management team established the committee to oversee Group-wide risk management, compliance and risk governance. The committee differs from entity risk committees in its oversight role, emphasising the aggregated risk profile and adequacy of the GRICAF infrastructure and control systems (the control frameworks).	Value is created for subsidiaries through shared services and centres of expertise located in Namibia and Botswana. These provide thought leadership and direction and perform non-routine activities such as advisory engagements and special assignments. Examples include AML expertise, financial risk modelling, compliance monitoring, corporate governance and Risk Culture building. While the strategic direction is set centrally, it is interpreted and adapted locally in line with the Group's strategic guidance approach. Decentralised local execution meets market expectations. Sharing services such as compliance monitoring, cyber resilience expertise, analytics and quantitative modelling provides economies of scale, greater integration, and engagement on risk management across jurisdictions.

Risk Culture: Our Risk Culture supports all elements of the GRICAF by cultivating and embedding the correct understanding of and attitude towards risk and risk management. It is essential for risk management initiatives and actions to become part of an organisation's culture. Key elements of our Risk Culture building programme involve communicating and creating awareness of relative issues across the Group at each step of our risk management processes and procedures.

2023 progress

The compliance monitoring unit has executed a plan to monitor compliance for core legislation in Namibia and Group-wide AML compliance monitoring.

Progress was made with an enterprise data and analytics strategy ("EDAS"). A dedicated risk data domain was identified to consolidate existing ERM data environments under a single, standardised data architecture. The Basel Committee on Banking Supervision ("BCBS") issued principles for effective risk data aggregation and risk reporting in banking institutions were adopted in one ERM subject area and were included as a requirement under the EDAS.

The cyber resilience capability was enhanced through the cyber resilience programme, which achieved all its objectives for the year.

Risk capacity, appetite and tolerance ("RCAT")

The board has a duty to set the risk appetite for the Group. Risk appetite statements direct and guide management in policy development and decision-making and are key components in the delegation of duties to management.

The capacity and appetite statements are reviewed annually, and measurements are reported to the Group risk committee, executive management team and the BARCC. The quantitative and qualitative appetite statement is developed and approved in conjunction with the budget.

The Group RCAT is cascaded to subsidiaries as appropriate. Subsidiaries are required to adopt the qualitative risk appetite statements. Quantitative risk appetite statements are set as appropriate for subsidiaries and are aligned to the Group's quantitative appetite statements through our strategic and budget planning.

The following constitutes our zero tolerance levels:

- The Group has no appetite for unethical business conduct and expects the board, all employees and contractors to subscribe and adhere to the Group Code of Ethics and Conduct.
- The Group treats its customers in a fair and transparent manner and therefore has no appetite to deviate from the commitments made to customers.
- The Group has no appetite for deviations from the governance principles contained in King IV™ and applicable legislation.
- The Group has no appetite for reactive, persistent or recurring core regulatory non-compliance.
- The Group has no appetite for conduct that places its reputation at risk.

2023 Group risk profile

The Group's main risks are represented by the 14 principal risk categories that apply across the various operating units in Namibia and Botswana. The overall aggregated principal risk profile for 2023 is as follows:

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

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

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

Capital risk

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

How we mitigate this risk

The objectives of the Group when managing capital include:

- Complying with minimum regulatory capital requirements in all jurisdictions.
- Safeguarding the ability of the Group to continue as a going concern.
- Optimising the effective use of capital.
- Maintaining a sufficient capital base to support business development and expansion.

Our banking subsidiaries conduct an annual internal capital adequacy assessment process ("ICAAP") to assess capital adequacy beyond regulatory capital. Important factors considered in the ICAAP include the Group and subsidiary strategy, business performance and growth objectives, budgets, forecasts, adverse risk scenarios across all principal risks, and the effectiveness of the risk and control frameworks to mitigate the identified risks. The outcome of the ICAAP is approved by the respective banking subsidiary boards and forms the basis for prudent but efficient capital management.

The board reviews its risk appetite at least annually through appropriate key risk indicator thresholds. The approved thresholds are monitored and managed within these parameters at a Group and entity level.

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

Capricorn Group	RAG status		
Descriptor	Red	Amber	Green
Regulatory capital adequacy compared to minimum regulatory capital adequacy ratio of 10%	<14.5%	14.5 – 15.0%	>15.0%

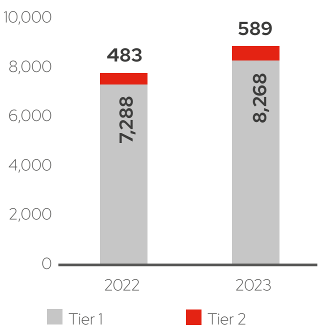
The Group and its banking subsidiaries remained adequately capitalised in terms of local regulations throughout the reporting period.

Capital adequacy is reviewed monthly at banking subsidiary asset and liability committee ("ALCO") level and quarterly at banking subsidiary board audit committees, Group ALCO, Group risk committee and Group BARCC level. Additionally, capital levels are stressed annually under hypothetical scenarios as part of the banking subsidiary's ICAAP process. Any emerging risks are pro-actively managed.

Key risk indicators

Key regulatory capital figures for Capricorn Group	2023	2022	Variation
Tier 1 ratio	15.8%	14.8%	1.0%
Total capital ratio	16.9%	15.8%	1.1%
Leverage ratio	12.5%	12.7%	-0.2%
Tier 1 (N$'000)	8,268	7,288	13.4%
Tier 2 capital (N$'000)	589	483	21.9%
Total capital (N$'000)	8,857	7,771	14.0%
Risk-weighted assets (N$)	52,288	49,282	6.1%

Total capital – Capricorn Group (N$'000)



Governance oversight

Capital risk is reported and monitored at subsidiary and Group level.

Subsidiary: ALCO, risk committee, board Risk and Compliance Committee, board

Group: Group ALCO and Risk Committees, BARCC

Priorities for 2023 and progress made

In 2023, the Group continued on its capital optimisation journey that entails utilising capital more effectively and efficiently to effect growth and ultimately yield higher ROE employed, while not taking on additional capital risk.

More information

Read more about the composition of regulatory capital and the ratios of the Group in note 3.7 of the consolidated annual financial statements from pages 80 to 82.

Outlook for this risk

As in prior periods, the Group is expected to maintain a healthy capital buffer above regulatory requirements. To test the buffer, an integrated stress testing model will be deployed, and this will be used to test the robustness of the capital plan and the buffer level to ensure the sufficient capital is available to fund future growth and protect the Group's sustainability in the event of adverse market and economic conditions.

In 2023, The Group continued to focus on capital optimisation to improve capital efficiency, while not taking on additional capital risk. The ultimate objective of the capital optimisation journey is to maximise returns on capital while not compromising on capital adequacy. The risk appetite has, therefore, been set to ensure alignment with the strategy and focusing capital deployment in sectors and segments that support capital optimisation.

Residual risk

Green – This principal risk is within appetite due to the adequate capital reserves above minimum regulatory and ICAAP requirements.

Compliance risk

Compliance risk relates to financial and reputational risk exposures attributable to non-compliance with laws and regulations, money laundering (including the prevention and combating of terrorist and proliferation activities), conduct of business and reporting and disclosure.

How we mitigate this risk

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

Good corporate citizenship and sound market conduct are underpinned by compliance with legislation, regulations, supervisory requirements and applicable international standards. As a financial services group, our licences to trade in Namibia and Botswana are subject to adhering to strict regulations overseen by local and foreign regulators.

The Group board sets the risk appetite. There is no appetite within the Group for reactive, persistent or recurring core regulatory non-compliance. When non-compliance occurs, the gaps are immediately addressed through the formal remediation process of the Compliance Framework.

The key risk drivers for compliance risk are:

1. **Money laundering:** Failure to implement and maintain proper controls to safeguard against money laundering, terrorist financing and proliferation financing.
2. **Regulatory:** Failure to comply with core laws and regulations or to maintain sound relationships with regulators. This excludes money laundering, which is covered by a separate level 2 risk.
3. **Internal compliance:** Failure to comply with internal compliance rules, processes and procedures for safeguarding against non-compliance.
4. **Legislative awareness:** Failure to be aware of new or amended legislation or other legal principles and, therefore, not in compliance, that may give rise to legal or regulatory liability, or sanctions, by regulators.

Compliance risk appetite assessments considers the following controls:

Variable	Method	Indicator
1. Extent of non-compliance.	1. Monitoring of core legislation. 2. Regulatory assessments/findings. 3. Penalties, fines and administrative charges. 4. Significant compliance matters escalated to board committees.	1. Compliance monitoring and self-assessment ratings. 2. Number of recurring findings. 3. Number of overdue compliance-related issues 4. Value of penalties, fines and administrative charges. 5. Number of compliance matters escalated to board committees.

Key risk indicators

Key risk indicators include the following:

- Extent of compliance, for example, findings of assurance provider and regulatory assessment report and overdue remediation issues.
- The value and number of penalties, fines and administrative charges.
- Number of matters outside appetite, and possibly taking on too much risk.
- Level of compliance, for example, attestations and self-assessment outcomes.

The combined assurance model implemented identifies non-compliance from time to time that is remediated through the Group's formal remediation process.

Governance oversight

Compliance risk is assessed, mitigated and reported within a governance structure that is fit for each entity. At management level, compliance risk reporting is overseen by the risk committee and operational risk forum (where applicable) on a monthly basis. At board level, compliance risk is overseen by the risk committee and BARCC on a quarterly basis. For smaller entities without supporting board and management committees, compliance risk must be reported to the managing director and board.

Information is escalated upward through the entity and Group governance structure to ensure that significant legal risks and legal risk appetite breaches are addressed pro-actively and appropriately. Compliance risk information is aggregated quarterly at Group-level through risk profile reporting to assess Group-wide threats and trends.

The GPRO and PROs are responsible for initiating compliance risk reporting into the entity and Group structures.

Priorities for 2023 and progress made

- Further embedding our compliance monitoring capability and extending it into the Botswana jurisdiction for core legislation compliance as well.
- Further enhancement to our capability for threshold reporting to regulators.
- Development of a Capricorn Group role-based AML, counter terrorism financing ("CTF"), counter proliferation financing ("CPF") training programme.
- Implementation of risk inheritance and financial profiling.

Outlook for this risk

The trend of increased regulation is expected to continue. In Namibia, the focus is on the mutual evaluation and the draft Data Protection Bill that was circulated. On the draft Data Protection Draft Bill, aspects of general application in similar legislation worldwide is being assessed.

Namibia's final report from ESAAMLG was issued in September 2022. Following the review and adoption of the report, Namibia was given a year to close all findings in order to avoid a targeted FATF review and possible greylisting.

The Namibia cabinet approved a National Action Plan in December 2022, which includes proposed legislative changes and enhanced effectiveness measures by law enforcement agencies to address the findings. Eleven draft amendments and Bills were prepared by the relevant national stakeholders for public consultations and have commenced. Read more on page 7.

- In Botswana, the focus has been on compliance with the Data Protection Act by 15 September 2023. Engagements are ongoing with the Data Commissioner and the applicable Minister to agree on a migration plan for the hosting of systems in Botswana.

Residual risk

Amber – The profile was negatively affected by regulatory penalties relating to AML. The Group maintains a robust and formal issue remediation process where gaps are identified.

Credit risk

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

The operating context affecting credit risk

The operating environment has been challenging during 2023. The global economy continued to be affected by the Russia/Ukraine war and heightened geopolitical tensions. Inflation remained elevated, which prompted aggressive interest rate hikes.

The Namibian economy was not spared from the inflationary pressures and interest rate hikes. The high interest rates placed pressure on the repayment ability of existing customers, while reducing the demand for new loans, especially from corporates.

The rainfall pattern was inconsistent during the financial year, which placed pressure on the agricultural sector. High levels of unemployment and debt remained for the period.

In Botswana, credit risk remained under pressure and the NPL ratio deteriorated in line with expectations. However, there are signs of economic recovery in Botswana as demonstrated by GDP growth recorded, particularly in the mining sector.

The banks implemented additional measures to ensure that credit risks are proactively managed and selectively onboarded new borrowers. Regulators in Namibia and Botswana continue to provide relief through local regulations to enable banks to assist individuals and businesses during these difficult times.

How we mitigate this risk

Credit risk is managed through a comprehensive management framework encompassing regulations, Basel standards, International Financial Reporting Standards ("IFRS"), sound industry practice and board risk appetite, including the continuous monitoring of risk profiles and concentration risk of the overall portfolio. Analyses, predictive models, and stress testing are used to enhance the understanding and management of credit risk in all the steps in the credit process. This includes application vetting, credit assessment, sanctioning and disbursement, repayment monitoring, debt collection, and write-offs. A continued focus will be placed on managing Environmental and Social risks through the Environmental and Social Management System ("ESMS") and using it in the loan application process to ensure responsible, sustainable lending.

Governance oversight

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

Priorities for 2023 and progress made

- Monitoring of NPLs and enhancement of early warning mechanisms.
- Improved management information to improve the legal collections process.
- Use advanced analytics (machine learning models) to leverage the increasing availability of data, manage credit risk, and offer personalised customer solutions.
- Business Rescue and Pre-Legal Functions for proactive credit risk management.

More information

Read more about credit risk in the section on credit risk in the integrated annual report on page 56 and note 3.2 in the annual financial statements.

Credit risk continued

How we mitigate this risk *continued*

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

- Investigating and implementing digitised credit management and collections processes.
- Continuous development and enhancement of qualitative statistical tools to enable proactive management.
- Embedding and refining risk grading and pricing, supported by emerging risk analytics.
- Enabling broad-range credit management through developing monitoring, detecting, and assessment tools and reports.
- Improving employee engagement and collaboration through various electronic training and shared-learning activities.

Current and future focus areas:

- Developing and implementing digitised and automated credit approval, management, and collection processes.
- Business rescue and pre-legal functions for proactive credit risk management.
- Continued focus to execute on credit management and collections processes.
- Pro-active and focused management of stage 2 clients.
- Continued focus and implementation of collateral centralisation and optimisation actions.
- Optimise credit processes for proactive problem detection and remediation.
- Embedding the credit stress recovery plan.

Key risk indicators

Key regulatory credit risk figures	2023 (June)	2022 (June)	Variation
NPL as a percentage of gross loans and advances (%)	5.2%	5.4%	(0.2%)
IFRS 9 stage 3 provision/specific impairment provision (N$'000)*	1,114,845	972,006	14.7%
Impairment charges in income statement (N$'000)	235,610	367,303	(35.9%)

* *Includes IIS.*

Outlook for this risk

The outlook for credit risk is projected to remain high because of the fragile economy, uncertainties around the geopolitical tensions, and the inflationary pressures amidst high interest rates. Loadshedding in South Africa may also have broader price effects on the cost of doing business with South Africa.

Pressure on irregular and NPLs is expected to remain in the short to medium term, negatively impacting arrears, provisions and bad debt.

The following focus areas will be fundamental to credit risk management for 2024: the proactive and efficient management of this risk, the embedment of online applications, pre-approvals, centralisation of key processes and functions, and the incorporation of mathematical models will be actioned.

Residual risk

Red – the operating environment remains uncertain and exposed to unpredictable risks. The framework, controls and new initiatives are continuously assessed, enhanced, and implemented to mitigate the uncertainty.

Cyber risk

Cyber risk is any risk associated with financial loss, disruption or damage to an organisation from failure, unauthorised or erroneous use of its information systems.

How we mitigate this risk

Cyber risk is an inherently high and escalating risk due to the increased prevalence of digital platforms and interconnectedness. The increasing threats place sensitive data and organisational security at significant risk. Cyber attacks are increasing worldwide, and banking institutions are key targets. Cyber risk is receiving notable focus and support from the board. The Group mitigates cyber risk through various technical and non-technical controls, including:

- Cyber resilience programme that drives and enhances the maturity of cyber capabilities.
- Cyber risk management process.
- Third-party cyber risk management programme.
- Cyber incident response plans and procedures.
- Security operations centre ("SOC").
- Cyber threat modelling.
- Employee security awareness programme.
- Cyber management information system.
- Vulnerability management programme.
- Network, perimeter, and infrastructure security controls.

Key risk indicators

- External cyber posture
- Internal cyber posture
- Third-party cyber posture
- Various cyber metrics

Governance oversight

Cyber risk is overseen at board level by the GBITC and Group BARCC and at management level by the Group and Subsidiary Risk Committees.

Priorities for 2023 and progress made

- An enterprise-wide cyber resilience programme containing various workstreams was maintained.
- Several workstreams completed in the past financial year.
- "Crown jewel" systems were identified, and threat modelling completed.

Outlook for this risk

Cyber risk is expected to increase worldwide, and cyber attacks will continue to be an area of concern. The cyber resilience programme is designed to address current and emerging cyber risks.

Residual risk

The residual risk is rated as amber due to the cyber resilience journey still underway via the cyber resilience programme.

Finance and tax risk

Finance risk is the risk of inaccurate financial reporting and disclosure, while tax risk relates to non-compliance with taxation laws and regulations in our operating regions.

How we mitigate this risk

The Group maintains a robust risk and control framework to mitigate the finance and tax principal risk. The framework consists of a policies, standards, processes and procedures that are implemented Group-wide to ensure the completeness and accuracy of all transactions from inception to reporting. Key controls include:

- Accounting policies and procedures are clearly defined in relevant accounting policies.
- Roles are clearly defined and there is appropriate segregation of duties. All transactions are initiated and approved per the authority matrix, tailored for the Group entity and each subsidiary.
- Reconciliation of financial accounts are prepared according to set rules and standards and reviewed monthly.
- Management accounts are prepared and reviewed monthly by the management team and reported to the various audit committees and boards every quarter.

The design and implementation of these controls are monitored through internal audits conducted during the financial year on internal control processes within the finance departments across the Group.

The Group employs suitably qualified and skilled individuals with knowledge of applying IFRS and tax legislation in our regions. The Group utilises internationally recognised accounting software, which is subject to annual general and application control audits by external auditors. Our external auditors' annual engagement ensures compliance with IFRS on a separate and consolidated basis.

The risk of non-compliance with tax legislation is mitigated by properly implementing controls and processes. The processes are adequately supervised, including reviewing and approving all direct and indirect tax calculations and reports before submission. External tax specialists are consulted when there is uncertainty about certain tax matters. Additionally, periodic internal audit reviews and external audit procedures are conducted by tax specialists of PricewaterhouseCoopers.

Governance oversight

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

Priorities for 2023 and progress made

A range of processes relating to procurement and regulatory reporting were automated during the year, reducing the risk of human error.

Outlook for this risk

Compliance with IFRS and tax legislation remains a top priority for the Group. The Group will remain compliant with all relevant IFRS and tax legislation by ensuring all controls are effectively designed and implemented.

The Group will focus on maintain the current robust internal control framework, while improving efficiencies, by reviewing and updating processes and procedures related to budgeting and financial reporting.

Residual risk

Green

Financial crime risk

Financial crime risk is the risk of loss, damage or harm associated with fraud, theft, corruption and related criminal activities, which is collectively referred to as fraud. It excludes theft of cash and company assets from company facilities (part of operations risk) and information security breaches and electronic crime (part of cyber risk).

How we mitigate this risk

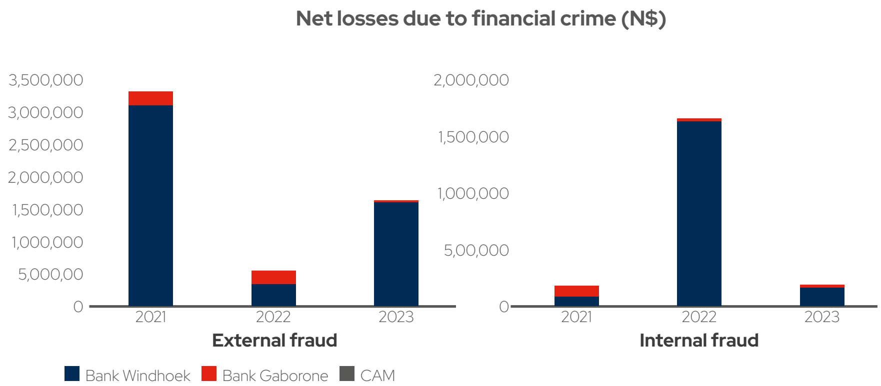
The Group developed a Risk Management Framework to manage financial crime risk. The framework adheres to standard practices for operational risk related to risk and control assessment, key risk indicator monitoring, risk incident reporting and issue remediation. It was acknowledged that a close correlation exists between cyber risk and financial crime risk as both may involve criminal elements. For purposes of differentiating cyber risk and financial crime risk, the following principles were established:

- Financial crime risk focuses on risks where customers are directly compromised through obtaining something from the client e.g., card, password, SIM card, etc. (external) or where employees are involved in criminal activities that do not target computer systems (internal).
- Cyber risk focuses on risks where customers are not directly compromised through something obtained from the client, e.g. attacks on information systems.
- The risk of attacks against computer systems is categorised as cyber risk.

Preventative measures include Risk Culture building, ethics training and fraud awareness, which form part of the formal financial crime prevention approach. New products and services or major changes to existing products and services must undergo a formal risk assessment before changes are implemented.

Financial crime risk is managed through proactive and reactive methods. Proactive methods use technology to identify behaviour patterns, whereas reactive methods involve forensic investigations. Financial crime incidents are formally investigated. Processes are enhanced continuously as opportunities for improvement are identified through our monitoring and assurance processes.

Net losses due to financial crime (N$)



We have seen an increase in external fraud for Bank Windhoek in 2023. The main drivers for external fraud are card not present fraud claims and mobile app fraud. The root causes are negligence by both employees (mostly temporary employees) and customers who shared credentials with fraudsters.

Governance oversight

Financial crime risk is overseen by a governance structure that is fit for each entity. At entity management level, financial crime risk reporting is overseen monthly by the risk committee and operational risk forum (where applicable) based on the reporting of PROs. At subsidiary board level, financial crime risk is overseen on a quarterly by the risk and compliance committee (or equivalent). For smaller entities without supporting board and/or management committees, financial crime risk is reported to the managing director and board.

Information is escalated upward through the entity and Group governance structure to ensure that significant financial crime risks and financial crime risk appetite breaches are addressed pro-actively and appropriately. Financial crime risk information is aggregated quarterly at a Group-level through risk profile reporting to assess Group-wide threats and trends.

The GPRO and PROs are responsible for initiating legal risk reporting into the entity and Group structures.

Priorities for 2023 and progress made

- An external financial crime risk assessment was conducted to help us better understand our fraud risk exposure, the associated risks, and the strengths of our existing controls. The outcome of this assessment will assist us in shaping our future strategy for financial crime risk in the Group.
- Ethics training have been rolled out Group-wide.
- Focused fraud awareness training is to be implemented.

Outlook for this risk

The trend for financial crime risk is stable and within appetite, as indicated by net losses of <1% of net profit before tax.

Residual risk

Green with a stable trend.

Legal risk

Legal risk is defined as the risk of losses arising from an unintentional or negligent failure to meet a professional (legal) obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of products, services, legal relationships or transactions.

How we mitigate this risk

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

Legal risk appetite is assessed through the following qualitative assertions:

1. Low tolerance for mismanaged legal documentation or the incorrect use of legal templates.
2. Low tolerance for mismanaged intellectual property.
3. No tolerance for reliance on legal advice provided by departments other than Legal Advisory Services ("LAS")
4. Low tolerance for mismanaged litigation or a high litigation loss ratio (excluding legal costs).

The core legal risks identified are:

1. **Legal documents:** The risk that legal documentation is not enforceable as intended, may be enforced against the entity in an adverse and unintended manner, may contain insufficient protection mechanisms to limit legal liability (defective transactions), or may not be drafted in accordance with applicable laws, regulations and legal principles, thereby giving rise to legal or regulatory liability, or sanctions, by regulators.
2. **Litigation:** The risk that civil litigation as either plaintiff/applicant or defendant/respondent is not managed adequately. Litigation risk includes alternate dispute resolution ("ADR") such as arbitration and mediation.
3. **Legal advice:** The risk that the entity receives incorrect legal advice due to inadequate in-house legal skills/ experience/ specialised knowledge and inappropriate selection and use of external legal service providers that may give rise to legal or regulatory liability, or sanctions, by regulators.
4. **Intellectual property:** The risk that intellectual property is not managed correctly in accordance with Group principles and policies.

Subsidiaries can either establish an in-house legal department to manage legal risk or outsource legal work to external legal service provider.

Governance oversight

The legal risk governance structure reflects the nature, scale, scope and sophistication of each entity. Legal risk is assessed, mitigated and reported on throughout the organisation, but within a governance structure that is fit for each entity.

For smaller entities without supporting board and/or management committees, legal risk is reported to the managing director and subsidiary board at a minimum on a quarterly basis. For larger entities reporting occur monthly.

Information is escalated upward through the entity and Group governance structure to ensure that significant legal risks and legal risk appetite breaches are addressed proactively and appropriately. Legal risk information is aggregated quarterly at Group-level through risk profile reporting to assess Group-wide threats and trends.

The GPRO and PROs are responsible for initiating legal risk reporting into the entity and Group structures.

Priorities for 2023 and progress made

- The ethics risk procurement assessment was completed, and no significant findings made.
- We monitored and engage the Namibia Competition Commission on various claims made in the Namibian banking sphere.

Outlook for this risk

The trend for legal risk is stable, with a stable forecast for the next year. The in-house legal functions in bigger subsidiaries have matured and embedded legal processes, procedures and controls for managing the core legal risks identified above. Smaller subsidiaries use external legal service providers approved by the board procurement committee for legal service delivery to ensure controls are adhered to and legal risks identified are well managed.

Residual risk

Green with a stable trend.

Liquidity risk

Liquidity risk is inherent in the Group's business and is the risk of failure to meet payment obligations when they fall due, to replace funds when they are withdrawn or to repay depositors and fulfil lending commitments, while ensuring compliance with all statutory and regulatory requirements.

How we mitigate this risk

Liquidity must at all times be sufficient to meet obligations, both on and off-balance sheet, as they become due, while at the same time minimising the cost of obtaining liquidity. The Liquidity Risk Management Framework and contingency funding plan is documented and formally approved by the BARCC. Liquidity risk is monitored and managed by a complete list of quantitative and qualitative triggers listed in the plan and serves as early warning signs and action triggers. The Group's overall liquidity position is monitored and managed in conjunction with the plan to ensure sound liquidity of all operating units. The liquidity risk is managed by monitoring various identified variables, which include:

- The level of understanding of demand and supply for liquid assets.
- Long-term versus short-term funding needs.
- The level of adequacy and ability to access funding (established lines of funding) in a short period of time.
- Regulatory compliance.
- Market and economic dynamics in the region.
- Relationships with depositors.

In addition to a buffer liquid assets portfolio at Bank Windhoek, the Group maintains a N$1 billion contingency funding facility available to its banking subsidiaries. The facility is invested in highly liquid assets in South Africa, so it is not affected by local market liquidity conditions while eliminating any foreign exchange risk. Annual contingency funding line testing is performed, and the test was successful in the current year. Additionally, Bank Windhoek performed a thorough and successful liquidity stress testing simulation exercise in April 2022. The simulation is a regulatory requirement to be performed by an external facilitator every third year.

Liquidity risk continued to be effectively managed within the constraints imposed by current economic conditions. Bank Windhoek had healthy liquidity levels throughout the year as overall market liquidity in Namibia was significantly higher during the second half of the financial year when compared to prior years. Market liquidity in Botswana is priced at a premium as depositors seek higher returns to combat higher inflation rates experienced during the financial year, while limited and volatile market liquidity provides the necessary leverage to depositors to negotiate premiums, especially as depositors can easily invest off-shore due to lack of foreign exchange controls in Botswana.

Governance oversight

Each bank monitors and manages liquidity risk daily and is overseen by Group ERM and Group Finance through daily reports. Furthermore, liquidity risk is monitored and managed (a) daily and proactively by the bank treasury departments; (b) monthly, at the bank liquidity and market risks forums, bank ALCO and Group ALCO meetings and (c) quarterly, through reports to the bank and BARCC and Group risk committee.

Priorities for 2023 and progress made

- The Group pro-actively managed funding and loan book growth to maintain healthy liquidity levels and loan-to-funding ratios during times of rising interest rates and inflation.
- Successful liquidity stress simulation exercise was performed.
- Cost of funding was properly managed within current economic constraints.

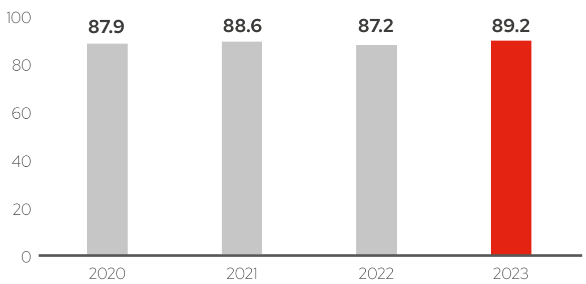
More information

Read more about liquidity risk in note 3.4 in the annual financial statements from page 33.

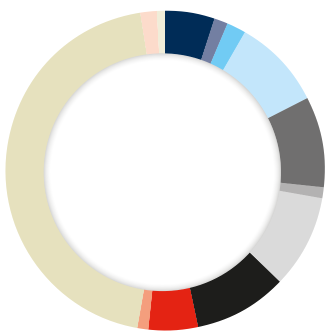
Liquidity risk continued

Key risk indicators

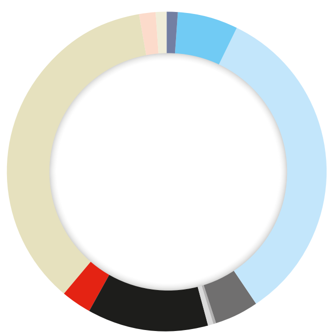
Loan-to-funding ratios (%)



Bank Windhoek deposit portfolio per sector



Bank Gaborone's deposit portfolio per sector



Bank Windhoek deposit portfolio per sector	
Water, gas and electricity	5.74%
Transport, storage and communication	1.51%
Trade, accommodation and food services	2.08%
Real estate and business services and professional	9.90%
Other	10.14%
Mining	1.20%
Manufacturing	1.01%
Individual	10.42%
Government services	5.40%
Fishing	1.29%
Finance and insurance	48.78%
Building and construction	1.72%
Agriculture and forestry	0.82%

Bank Gaborone's deposit portfolio per sector:	
Water, gas and electricity	0.20%
Transport, storage and communication	6.20%
Trade, accommodation and food services	0.99%
Real estate and business services and professional	33.20%
Other	2.91%
Mining	0.24%
Manufacturing	0.56%
Individuals	12.24%
Government services	4.69%
Fishing	0.00%
Finance and insurance	36.26%
Building and construction	1.50%
Agriculture and forestry	1.03%

Outlook for this risk

Liquidity will remain a focus area for the Group. The Group will continue to monitor customer deposit behaviour, loan disbursements and maturities, market factors and economic conditions to optimise liquidity and cost of funding within the realms of economic conditions. The Group will apply stress testing and scenario analysis to assess our liquidity resilience under adverse market conditions and various liquidity shocks to maintain healthy liquidity levels over and above prescribed regulatory levels. An integrated stress testing model has been developed and will be deployed to stress various risk components, such as liquidity, to ensure that we are adequately funded and that the liquidity buffers appropriate to ensure sustainability and stability.

The Group's treasury functions remain committed to procuring stable funding sources and holding sufficient excess liquid asset buffers over and above regulatory requirements.

Residual risk

Green. The Group has healthy liquidity levels.

Market risk

Market risk is the risk of potential losses in on and off-balance sheet exposures from movements in market rates and prices.

The following market risks usually arise:

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

How we mitigate this risk

Market risks are actively monitored at Bank Windhoek and Bank Gaborone. Higher interest rates, market uncertainty and bank failures in early 2023 highlighted the severe potential impact of market risk and fuelled the calls for improved and active management of this risk. The lag effect of interest rate hikes and the globalised monetary policy tightening may still result in a global recession. Market risk will remain a key focus area, given the probability of further changes to interest rates, increased volatility in foreign currency markets and the deteriorating macroeconomic environment, amplified by global stagflation, possible recessionary conditions and the continued geopolitical disruptions.

The macroeconomic downturn in South Arica, exacerbated by loadshedding and uncertain power supply, will be monitored closely by the Group.

The ALCO is responsible for optimising, controlling, directing and setting strategies for the Group's day-to-day balance sheet management, as per the risk appetite statement and the prudential regulatory requirements.

The interest rate committee is a sub-committee of the ALCO whose role is to guide discussions and debate the global and local economic climate in conjunction with the latest yield curve to reach an agreement on the interest rate outlook. The committee also recommends strategy to the banks via ALCO and in terms of the mix of assets and liabilities, hedging and other risk management strategies based on future expectations of interest rates and economic fundamentals.

The liquidity and market risk forum is an ALCO sub-committee. It is a pre-ALCO working forum consisting of key bank role players who debate the structure of the balance sheet, interest rate and funding considerations including bank strategy under current economic circumstances and identifying emerging risks. Issues and recommendations are then escalated to the ALCO.

Detailed key risk indicators and limits aligned to the bank's risk appetite are monitored daily and reported to key stakeholders, governance committees and the central bank as required. Each entity manages its funding book according to the following:

- Actual market information.
- Market expectations on the state of the local economy (central government borrowing plan, Bank of Namibia quarterly review and GDP).
- Expected future monetary policy changes

Foreign exchange risk is managed by closely monitoring the limits set out in the Market Risk Framework. Both on and off-balance sheet foreign currency exposure are measured and reported against the bank's qualifying capital to manage the risk within the risk appetite. Models and stress tests are used to better understand the market risk environment. Foreign exchange positions are managed via stop-loss orders and derivatives in the spot market to close or hedge unwanted exposure.

Key risk indicators

Maximum duration value, currency exposures and interest rate mismatches are some key risk indicators monitored.

Governance oversight

Market risk is monitored and managed at each banking subsidiary and Group ALCO, and there is oversight at the subsidiary and BARCC.

Priorities for 2023 and progress made

- Bank Windhoek has implemented an integrated stress testing model which will allow the bank to stress the bank's solvency and other performance and risk indicators, over five-year, forward-looking stress conditions.
- The market risk module and its capabilities in new treasury system will be utilised to manage market risk
- The integrated stress testing model coupled with the new treasury management system will enhance market risk management capabilities for internal and external stakeholders.

More information

Read more about market risk in note 3.3 of the annual financial statements on page 33

Residual risk

Amber. By introducing a built-for-purpose, best-in-class treasury system it will facilitate better automated processes, real-time information, and enhanced risk analytics. The system, however, is newly implemented, and the bank will require time to embed and fully utilise its market risk capabilities.

Outlook for this risk

Interest rate risk: Inflation is slowly returning to the targeted range of the regulator and pressure on interest rates is expected to ease. We expect stability for the remainder of 2023 with possible 25 to 50 bps cut during 2024. Interest rate basis risk is experienced on assets linked to the Namibian prime rate and a portion of the liability book linked to the three-month JIBAR. South Africa's monetary policy committee ("MPC") meeting is one month before the Namibian MPC, which negatively affects Bank Windhoek on an upward cycle of interest rates. The importance of an optimal funding mix is continuously stressed to mitigate this lag.

Bank Gaborone experienced less interest rate volatility on the Interbank Market, however, interest rate risk in the banking book was negatively impacted by the supply and demand curve on the funding front.

Currency risk: Continued volatility in currency markets is expected over the next year as global inflation and potential recession are exacerbated by the geopolitical uncertainty. South Africa also remains the closest trading partner and the instability from its volatile currency elevates the risk for our business.

In May 2023 a new treasury system was successfully implemented in Bank Windhoek. The system allows for real time management of market risk through enhanced limit management and valuations on derivatives for margin maintenance on collateral accounts with counterparties. The system has a market risk module which includes value at risk capabilities along with other stress testing and scenario analysis tools. This will be a future focus area and utilised as part of the bank's daily market risk management. The system will be implemented in Bank Gaborone within the next two years.

Operations risk

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

How we mitigate this risk

Operations risk is managed according to the standardised approach to operational risk management under Basel II. The Group continues to ensure that operations risk is effectively managed through a framework of policies, procedures and qualitative and quantitative tools to identify, assess, monitor, control and report such risks.

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

Future focus areas:

- Data quality and process optimisation.
- Branch optimisation.
- Improve processes using Six Sigma to remove variation and ensure clients experience consistent high-quality services.
- Implement measures to improve our capacity to minimise and absorb losses.
- Customer contact centre capability enhancement.
- Automate cash services and corporate customer value proposition.
- Improve active sales and relationship management.
- Back-office automation.
- Payment strategy formulation.
- New features and channel growth and migration enabled by the #gobeyond programme.
- Implement initiatives to reduce the environmental footprint relating to electricity usage and water consumption.

Governance oversight

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

Priorities for 2023 and progress made

- The various business units were continually exposed to the deployment of updated methodologies and as testing and training to ensure increased capacity to deal with interruptions to business.
- Contingency and recovery plans for core services, key systems and priority business processes have been developed. They are revisited as part of existing management processes to ensure that continuity strategies and plans remain relevant.
- Facilities adhere to minimum standards as required by the business and the regulator. All lease agreements are in place and managed according to the internal process when due for renewal.
- New productivity models were designed for tellers, back office and sales. Currently productivity models are being designed for credit/collateral and enquiries.
- Inefficiencies were identified in the 'End of Day Teller Process'. Savings in terms of time spend and monetary value is expected. Reduction in time spend calculated at more than 25%. Expected implementation date 1 September 2023.
- Digitised the Fire Drill quarterly feedback and review process and People Development Reporting.
- Implemented Control Card Source Automation.
- Digitised People Development Feedback Card.

Operations risk continued

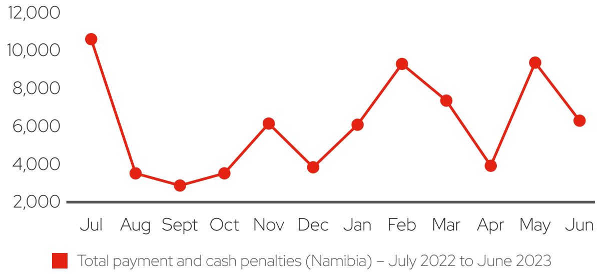
Key risk indicators

- Service level agreement ("SLA") monitoring to ensure adequate service delivery.
- Risk incidents.
- Business process management.
- Operational losses.

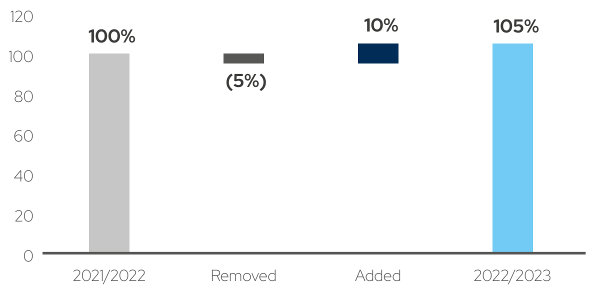
In Bank Windhoek, effort has been made to control the payment losses.

Group-wide processes were added as a conservative effort and processes were removed to retain stable, optimised processes.

Bank Windhoek payment losses due to Namibia penalties



Number of processes



Outlook for this risk

We have a process that identifies and assesses operational risks and requires implementing mitigation plans where gaps are identified. This enables appropriate risk taking, aligned with the Group's risk appetite, to achieve strategic objectives. Operations risk activities remain resilient and focus on unlocking operational efficiencies, simplifying operating models and becoming more deeply connected to the customer.

We will continue to enhance our management and mitigation of operations risk, specifically emphasising more agile development and delivery. From the outset and given the stated risk appetite per the Operations Risk Framework, this is properly assessed and within acceptable tolerances with an expected stable trend.

We are reviewing our processes to deliver stable, optimised processes in a controlled environment and increasing the automation and digitisation of our controls as part of our digitisation programme to transform our business into a future-fit distribution model. We also embed customer centricity in our design and execution to establish competitive advantage, leveraging data and digital.

Residual risk

Amber. Our digitisation programme introduces significant changes in our operational practices and procedures, and these changes will be managed to ensure a safe and responsible transition.

People risk

This is the risk of failure to achieve the Group's business objectives due to failures arising from people-related matters.

How we mitigate this risk

The People Risk Framework is linked to the Group strategy and is measured and reported accordingly. The framework was refined and is consistently applied. Measurements include the risk process related to all people practices and the consistent application of policies and procedures. Our people practices are evolving fast, and constant evaluation from a Risk Culture perspective is critical. The Group's Risk Culture building, ethics programmes and risk 101 e-learning programme train employees to be risk aware and have basic risk management skills to apply on the job.

The People Risk Framework has been adopted across the Group and describes best governance practices and clarifies roles and responsibilities while addressing risks associated with employee behaviour, capability and attitude towards risk management.

The Group mitigates its people risk through:

Spheres of control	Risk mitigation	Measurement
Culture change	> Linking the People Risk Framework to the Group's strategic choices which includes diversity, equity and inclusivity ("DEI") and leadership development > Transitioning employees to the new way of working (leadership, team and culture intervention). > A comprehensive and formal wellness programme which is supported by external partners to address our employees' overall wellness, specifically social, emotional and mental health. > Targeting a high-performance culture by redefining our talent investment approach and reviewing our performance management methods. > Formal programmes focused on embracing change and learning how to navigate change in a positive way. Our "connector activities" focused on change in support of the #gobeyond transformation programme.	Culture initiatives focus on leaders and in particular leadership mindsets, a diverse, equitable and inclusive workforce, and positive employee engagement. This is measured through our annual engagement survey, which has remained at 86% (2022: 86%). The prioritisation of leadership as a separate strategic choice, will allow for a focus on defining and developing leadership mindsets that will support building the desired organisational culture and result in meaningful employee experiences and sustainable business impact. The Group has further updated the Talent Investment Framework which spans the employee lifecycle and aims to drive talent attraction and acquisition, talent optimisation and development and retention The revised framework has been approved and is adopted across all entities. The adoption of e-learning continues. Several key interventions have been launched. Automation initiatives continue to be explored for socialisation on MyCapricorn, of which the most recent content is related to KnowB4 learning modules. DEI action items continue to be implemented. Existing Mirror survey action plans to include a focus on inclusion outcomes – this is currently in draft completed in July 2023. In addition to the Mirror survey assessment of organisational inclusion, a dedicated survey was facilitated July 2023. This will enable us to build a comparative view of year-on-year transformation and programme priorities.

Governance oversight

Detailed risk reports are submitted to risk committees post engagement with the respective people risk owners in the respective entities. A quarterly risk report is compiled from subsidiary information and submitted to the Group risk committee, BARCC and the Group board human resources ("HR") committee.

Priorities for 2023 and progress made

The people risk profile is stable across all the entities. From a strategic perspective, the focus has been on implementing a Talent Investment Framework, an Integrated Leadership Framework, continually applying a standardised succession process, implementing consistent performance management principles across the Group and emphasising our culture, which embraces DEI. This includes regularly reviewing and standardising policies and procedures pertaining to the people dimension.

Employee engagement is key to understanding underlying people issues. The annual engagement survey didn't highlight any risk matters that are not yet addressed as part of our normal people agenda.

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

- Transitioning employees to new ways of working (teams and cultural diversity).
- Implementing and embedding the new working model (including remote working).
- Focusing on leadership development to strengthen leaders to deliver against the organisation's strategic objectives.
- Strengthening positive union relationships, including ongoing engagement with union leaders and resolving issues through formal engagement structures.
- Sustainable wellness initiatives.
- Investing in real-time information via our MyCapricorn employee app.
- The implementation of a diversity, equity and inclusivity framework and programme.
- Pay equity review to ensure fair pay practices.
- Implementation of standard operating procedures and adjustment of policies to mitigate audit findings.

People risk continued

How we mitigate this risk *continued*

Spheres of control	Risk mitigation	Measurement
Ensuring positive relationships with unions	Ongoing employer and union forums and engaging with union leadership.	Engagement and alternative dispute resolution through formal platforms.
Awareness of policies, processes and procedures	Monitor market shifts and practices, which should be adapted and integrated into Group policies and processes. These are managed against Group governance standards.	Training on policies and procedures for all employees across Group entities.
Enhance people risk management (Reported monthly to operational risk forum, reported quarterly to the Exco	Ensure that risk management interventions and frameworks are understood throughout the Group.	Conduct ongoing risk assessments to identify and evaluate potential risks and opportunities.

Key risk indicators

- The annual average employee turnover for the financial year remains stable and below 1%.
- Employee engagement has remained stable since last year (86%), and the "fully engaged" score has increased by 7%.
- Male and female employees receive equal pay. Efforts continue to ensure understanding of data points. Where needed, remedial action is implemented as part of our annual remuneration review.
- Industrial relations cases (employee grievances, disciplinary hearings, etc.) increased with 3.8% from 6.7% to 10.5% for the review period.
- Affirmative action measures (Namibia only). The three-year plan is in place, the annual yearly update to the employment equity ("EE") commissioner was submitted in February 2023, and a certificate of compliance has been received.

Outlook for this risk

We expect a green outlook with a stable trend. The Group's strategic objectives continue to guide our actions with a key focus on talent, leadership, DEI as the foundation for strengthening our cultural artefacts. We rely on a strong, engaged culture to drive performance in the Group and are monitoring key flags relative to our engagement indicators. The war for talent continues to be a key consideration for our ability to deliver against the organisation's strategy. Significant effort has been invested in exploring alternative sourcing methods and the personalisation of the retention mechanism.

Residual risk

Green

Reputation risk

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

How we mitigate this risk

A Group Reputation Risk Framework is embedded which includes a strategic stakeholder engagement plan and crisis communication plan.

The board has a clearly defined and communicated qualitative risk appetite statement for reputational risk. Responsibility for monitoring and managing reputational risk falls with the PRO for each entity. Events which may impact reputational risk are identified and actively monitored. The GPRO is responsible for the continuous maintenance and evolution of the reputational risk framework and provides each entity's PRO with reputation risk management best practices, case studies and tips on dealing with a crisis from a communication and media perspective. External consultants were again contracted to monitor the Group and its subsidiaries' online presence, including traditional and social media channels. Monthly reports are generated and assist in adjusting strategies and responses to mitigate potential reputation risks.

The Group mitigates reputation risk by:

- Continuously monitoring compliance with the brand manual (visual identity guidelines) and brand endorsement strategy among all entities.
- Conducting dipstick brand audits and stakeholder engagement audits to assess the brand's health and stakeholders' perceptions.
- Implementing the Group's strategic stakeholder engagement plan and enhancing the plan with inputs from stakeholders through ongoing stakeholder engagement.
- Enhancing reputation risk awareness internally with a focus on responding to cybersecurity risks.
- Implementing the brand and communication strategy to address the risks and opportunities associated with the Capricorn Group brand following the outcome of the brand audit.
- Building a strong ethical culture through employee communication and engagement initiatives to create awareness of the anonymous tip-off line and encouraging employee participation in anonymous ethics surveys.
- Using the Capricorn Foundation's activities and the Changemaker programme (employee community outreach initiatives) to build a positive reputation for the Group as Connectors of Positive Change.

Key risk indicators

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

Governance oversight

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

Priorities for 2023 and progress made

- The Group Reputation Risk Framework was reviewed and enhanced with minimum mandatory controls and metrics for entities included.
- The Group appointed a corporate affairs manager in January 2023 to support the GPRO for reputation risk with reputation risk management and strategic stakeholder engagement from an investor relations perspective.
- A social media playbook and video was produced and shared with employees. Internal training on the playbook was also rolled-out.
- The Group contracted a public relations consultant to support the Group in the event of a cyber risk incident.
- Continued improvement of the GPRO oversight of reputation risk management, and enhancement of subsidiaries' reporting following training interventions.
- Continued visible improvement in entities' compliance with the Group's brand manual (visual identity guidelines).
- The Group's strategic stakeholder engagement plan was reviewed and enhanced following the feedback from stakeholders through the stakeholder audit.
- Internal awareness was created on reputation risks, and GPRO oversight in managing and reporting reputation risk issues was increased.
- The communication plan, which was developed to build a strong ethical culture. with the theme "Do the right thing", increased awareness on ethical behaviour.

More information

Read more in the Group chairperson's message in the integrated annual report from page 15 and the BSEC report from page 71.

Outlook for this risk

Financial institutions, banks in particular, are under increased scrutiny from customers and broader society, compounded by the worsening socioeconomic conditions. The perceptions of banks and sentiments shared about our banking subsidiaries are closely monitored and appropriately responded to. The changing landscape in reporting requirements and expectations from investors on ESG disclosures is closely monitored to ensure that the Group is meeting stakeholder expectations. Reputation risk is expected to remain stable. The nature of reputation risk requires us to be prepared for a wide range of eventualities. Capricorn Group has sound policies, processes and tools to manage reputational risk within our stated appetite.

Residual risk

Green

Strategic risk

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

How we mitigate this risk

Throughout our 3-year strategy cycle and annual reviews, we mitigate strategic risk by going through a robust internal and external environment scanning process and developing options and choices that address the most important strategic drivers in our environments. We ensure that our strategic choices are appropriately aligned among our managed entities to take full advantage of the diversity of our portfolio.

Some of the activities we undertake are:

- We apply governance to the strategy creation and review process per the Group Strategic Risk Management Framework.
- We adopt an open strategy development methodology to review the Group strategy.
- Implemented strategy with clear and appropriate actions, outcomes, metrics and performance targets.

Key risk indicators

- ROE, gross advances and employee costs as a percentage of expenses
- Various market share metrics.
- Customer satisfaction and net promoter score, growth rate, customer contribution, cross-sell and up-sell ratios.
- Employee engagement.
- Corporate social investment project metrics.

Governance oversight

The Group and subsidiary boards and entity executive management teams conduct annual strategy sessions to develop and/or approve strategies for the Group and subsidiaries. Managing directors of the entities report progress on the implementation of the strategy at quarterly board meetings.

Priorities for 2023 and progress made

- We remain directionally on track with our strategy execution, with key priority areas being funding, talent management and new growth initiatives.
- CAM and Bank Windhoek met their market share and customer objectives.
- Meeting funding targets remained challenging both in Namibia and Botswana.
- We made steady progress with our digitisation programme, delivering multiple enhancements to our digital channels.
- There was a Group-wide improvement in employee engagement.
- We invested in our talent management and leadership development.
- We defined objectives, goals and action plans for our diversity, equity and inclusivity ("DEI") programme and completed a series of externally facilitated sessions on unconscious bias.
- We initiated a review of the Group strategy through an open and inclusive process.

More information

Read more in the section on our strategy from page 34 of the integrated annual report.

Outlook for this risk

We expect both strategic risks and opportunities to increase. Liquidity and funding will remain a focus. Shifting societal values and expectations to participate in the broader shared economy will require corporations to re-imagine their value proposition to society. The energy sector in Namibia poses significant potential opportunities and risks and will require robust decision architectures to evaluate risks and returns. The war for talent is intensifying and requires alternative modes of engagement with top talent. Technology convergence will bring disruption but also new partnership opportunities. Climate change and other sustainability factors are gaining prominence both in terms of the risks to regulatory compliance and robust risk management will remain imperative.

As we navigate the complexities of our fast-changing operating context, we use more open and inclusive approach in our strategy process.

Residual risk

Amber

Drivers of strategic risks and opportunities include the deteriorating social, political, energy infrastructure and economic conditions in South Africa which affect the region, volatility in the macro-economic environment and the impact on inflation and interest rates, evolving technology innovation especially in the areas of AI which impact on competitiveness and risks, climate change and the emerging opportunities in Namibia within the energy sector.

Technology risk

Technology risk is the risk that the strategic technology investment is not aligned to the Group's purpose or business strategy or catastrophic failure of technology to deliver secure IT services that provide critical business services.

How we mitigate this risk

The Group Technology Risk Framework sets out the governance, policies, guidance, and procedures for IT risk management within the Group. The framework aims to ensure that the current technology risks are adequately identified, analysed, assessed, and treated following the applicable legislation, industry and international standards such as COBIT, ISO 27005, 31000 and the Payment Card Industry Data Security Standard ("PCI-DSS"), to ensure compliance and increase the benefits derived from the use, ownership, operation, and adoption of technology. Key technology controls and risk indicators implemented to adequately manage technology risks are managed within the framework. Technology risks are also managed and reviewed through a monthly information technology and security risk committee meetings.

The GBITC governs the Group IT function, and the executive management responsibilities vest with the Group chief information officer who is also the GPRO for technology risk. The cyber security, IT risk, and compliance teams collaborate with the technology GPRO and subsidiary PROs to identify risks. These are communicated to managers who are responsible for executing remediation plans. An effective control environment was created to identify critical issues and deal effectively with severe incidents. Risks are tracked and reported within the risk governance structures. The Group employs a standardised architecture to combat threats and reduce the effort required to support and maintain all systems.

The Group mitigates technology risk by:

- Formal governance and policy with regards to technology risk.
- A Framework that outlines the key risks, controls and key risk indicators.
- Monitoring of the risk through formal reports, including key risk indicators with thresholds.
- Continuing to enhance technology key risk indicators.
- Ensuring business continuity by enhancing technology infrastructure resilience.
- Regular software and hardware updates to mitigate security breaches or system failures.
- Enhancing our development, security, and operations capabilities.

Key risk indicators

- Repeat moderate severity incidents.
- System uptime.
- Disaster recovery capabilities.
- Support call metrics.
- IT change metrics.
- Patch management capabilities.

Governance oversight

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

Priorities for 2023 and progress made

- Oversight for expanding platform capacity in line with business demands and to enable delivery of the strategy.
- IT infrastructure and software were updated to the latest releases to improve system availability and stability.
- Developed effective employee retention and key-man dependency initiatives.
- New and existing architectural building blocks were continuously created and improved to ensure that business value can be realised to keep the bank abreast of new technologies.
- Further enhance agile and platform execution.

More information

Read more about IT governance on page 19 of the governance report.

Outlook for this risk

Through our comprehensive IT risk and governance, we strive to minimise the potential impact of IT risks and ensure the privacy, confidentiality, integrity, and availability of our critical information assets. We remain committed to continuously enhancing our practices to adapt to evolving technology threats and industry trends.

Residual risk

Amber with a stable trend. Realising the future state architecture, in line with the strategy, is a continuous process through various strategic and enabler initiatives.

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Details for QR code

Download any QR reader app on the Google Play Store or Apple App Store. Use the app to scan this code to be linked directly to the Capricorn Group Ltd condensed consolidated financial statements on our website. Alternatively, visit https://www.capricorn.com.na/Pages/News-Centre/Capricorn-Group-Annual-Results-2023.aspx