

Bank Windhoek Limited

CONSOLIDATED REVIEWED GROUP RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

OVERVIEW

The six months under review remained challenging for the economy and banking industry as a whole. The Gross Domestic Product (GDP) contracted by 0.8% year-on-year (yoy) in the third quarter of 2018, a 10th consecutive quarter in which the Namibian economy contracted. Year-on-year growth in private sector credit extension (PSCE) of 6.7% was reported December 2018. The Repo rate remained unchanged at 6.75% during the period.

Market liquidity deteriorated towards the end of the reporting period as a result of large government debt issuance as well as portfolio flows to South Africa following an unexpected hike in interest rates by the South African Reserve Bank in November 2018. Pension fund investors also increased their treasury bill- and bond holdings at higher yields. This resulted in higher deposit rates offered in Namibia to retain deposits, potentially signaling an end to the downward interest rate cycle.

Despite the challenges faced by the economy and industry, Bank Windhoek Limited's (the Bank) profit before tax for the six months ended 31 December 2018 increased with 5.3% compared to the same period in the prior year. On a normalized basis, which excludes a capital profit in the same period in the prior year, growth in profit after tax was 13.8%.

Statement of Comprehensive income

Net interest income increased with 13.2% compared to the same period in the prior year. The 7.0% year-on-year increase in **interest income** was largely driven by interest earning asset growth of 5.5%. **Interest expense** growth was limited to 2.7% year-on-year, with the reduction in cost of funding being a large contributor to the improved margin achieved when compared to the same period in the prior year.

Following the adoption of IFRS 9, effective 1 July 2018, **impairment charges on loans and advances** for the period decreased slightly to N\$25.2m (December 2017: N\$26.4m).

Excluding a capital profit of N\$42.6m on the partial disposal of an investment in Visa Incorporated, one of the Bank's non-core assets in the prior year, **non-interest revenue** grew by 11.6% year-on-year. Income from investment, trading and foreign exchange activities was a key contributor to the increase in non-interest revenue. **Operating expenses** growth of 12.3% to N\$692.7m (December 2017: N\$616.4m) was lower than **gross income** growth of 13.1% when excluding the capital profit made in the same period in the prior year.

Other comprehensive income derived from the revaluation of foreign currency denominated available-for-sale financial assets decreased from the prior year due to a combination of the weakening of the US stock markets and recent strengthening of the Namibian Dollar.

Statement of Financial Position

Gross loans and advances growth of 6.3% year-on-year was largely driven by growth in commercial loans. Growth in **net loans and advances** was lower at 5.2% yoy as a result of increased credit provisions with the adoption of IFRS 9 during the reporting period. The total **provision for impairment on loans and advances** increased by N\$240.3m at first-time adoption of the new standard. **Non-performing loans** as a percentage of gross loans and advances increased from 2.3% on 31 December 2017 to 3.8% on 31 December 2018. The increase is attributable to a small number of larger exposures that moved to the non-performing book during the last 6 months of the previous financial year and at the start of the reporting period.

Total **funding** increased by 5.2% to N\$32.9bn (December 2017: N\$31.3bn). In December 2018, Bank Windhoek became the first commercial bank in the Southern Africa region to issue a Green Bond in line with the Bank's sustainability agenda.

The Bank remains well capitalised with a total risk-based **capital adequacy** ratio of 15.7% (December 2017: 15.1%), well above the minimum regulatory capital requirement of 10%.

Dividend declared

Following a review of the Bank's capital utilisation and balance sheet structure, the board of directors (the board) declared and paid a special dividend of N\$300m from prior year profits in November 2018.

On 20 February 2019, the board declared an interim dividend of N\$147.0m in line with its dividend policy. The board also declared a special dividend, from the proceeds from the disposal of the investment in Visa Incorporated subsequent to the reporting date, of N\$140.6m on February 2019. The interim dividend is payable on or before 13 March 2019.

Basis of preparation

The condensed consolidated interim financial statements of Bank Windhoek Limited for the six months ended 31 December 2018, from which information is derived, have been prepared in accordance with the recognition and measurement criteria of International

Financial Reporting Standards (IFRS), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and presentation and disclosure requirements of International Accounting Standards (IAS) 34: 'Interim financial reporting' as well as the Namibian Companies Act. The group's principal accounting policies comply with IFRS and have been applied consistently in all material aspects with those applied during the previous financial years.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME for the period ended 31 December 2018

	6 months ended		Year ended
	31 Dec 2018 (reviewed) N\$'000	31 Dec 2017 (reviewed) N\$'000	30 Jun 2018 (audited) N\$'000
Interest and similar income	1,907,535	1,782,125	3,588,688
Interest and similar expenses	(1,079,920)	(1,051,359)	(2,078,598)
Net interest income	827,615	730,766	1,510,090
Impairment charges on loans and advances	(25,276)	(26,422)	(58,069)
Net interest income after loan impairment charges	802,339	704,344	1,452,021
Non-interest income	483,852	475,832	937,509
Operating income	1,286,191	1,180,176	2,389,530
Operating expenses	(692,701)	(616,454)	(1,296,349)
Operating profit	593,490	563,722	1,093,181
Share of profit in joint ventures' after tax	2,063	2,014	1,148
Profit before income tax	595,553	565,736	1,094,329
Income tax expense	(173,373)	(152,196)	(297,557)
Profit for the period / year	422,180	413,540	796,772
Other comprehensive income			
<i>Items that may subsequently be reclassified to profit or loss</i>			
Net gains on available-for-sale financial assets	4,377	23,416	44,056
Total comprehensive income for the period / year	426,557	436,956	840,828

CONDENSED STATEMENT OF FINANCIAL POSITION as at 31 December 2018

	31 Dec 2018 (reviewed) N\$'000	31 Dec 2017 (reviewed) N\$'000	30 Jun 2018 (audited) N\$'000
ASSETS			
Cash and balances with the central bank	1,045,739	1,375,616	1,221,703
Derivative financial instruments	-	20	-
Financial assets designated at fair value through profit or loss	4,253,692	3,556,157	4,166,953
Financial assets at amortised cost	657,560	640,246	624,715
Investment securities	138,407	129,385	134,028
Due from other banks	504,014	727,911	749,021
Loans and advances to customers	30,645,149	29,082,887	29,763,659
Other assets	176,180	263,086	274,478
Current tax asset	71,451	52,957	44,283
Interest in joint arrangements	9,402	8,206	7,340
Intangible assets	187,677	195,843	182,476
Property, plant and equipment	177,034	161,722	172,955
Deferred tax asset	72,063	-	-
Total assets	37,938,368	36,194,036	37,341,611
LIABILITIES			
Derivative financial instruments	3,537	9,347	5,535
Due to other banks	40,041	36,914	63,037
Other borrowings	883,008	1,302,253	1,217,510
Debt securities in issue	3,641,363	3,193,989	3,537,990
Deposits	28,442,137	26,838,835	27,408,878
Other liabilities	439,843	233,014	308,659
Deferred tax liability	-	3,881	7,205
Post-employment benefits	11,836	10,556	11,440
Total liabilities	33,461,765	31,628,789	32,560,254
EQUITY			
Share capital and premium	485,000	485,000	485,000
Non-distributable reserves	74,548	249,556	269,653
Distributable reserves	3,917,055	3,830,691	4,026,704
Total shareholders' equity	4,476,603	4,565,247	4,781,357
Total equity and liabilities	37,938,368	36,194,036	37,341,611

CONDENSED STATEMENT OF CHANGES IN EQUITY for the period ended 31 December 2018

	Share capital and premium N\$'000	Non-distributable reserves N\$'000	Distributable reserves N\$'000	Total equity N\$'000
For the six months ended 31 December 2017				
Balance at 1 July 2017	485,000	248,186	3,571,752	4,304,938
Total comprehensive income for the period	-	-	436,956	436,956
Profit for the period	-	-	413,540	413,540
Other comprehensive income	-	-	23,416	23,416
Reclassification to profit or loss	-	-	(42,647)	(42,647)
Transfer between reserves	-	1,370	(1,370)	-
Dividends	-	-	(134,000)	(134,000)
Balance at 31 December 2017	485,000	249,556	3,830,691	4,565,247
For the six months ended 31 December 2018 (reviewed)				
Balance at 1 July 2018	485,000	269,653	4,026,704	4,781,357
Credit risk reserve transfer to retained earnings	-	(163,422)	163,422	-
IFRS 9 initial adoption	-	-	(163,422)	(163,422)
IFRS 15 initial adoption	-	-	(66,749)	(66,749)
Adjusted balance at the beginning of the reporting period	485,000	106,231	3,959,955	4,551,186
Total comprehensive income for the period	-	-	426,557	426,557
Profit for the period	-	-	422,180	422,180
Other comprehensive income	-	-	4,377	4,377
Transfer between reserves	-	(31,683)	31,683	-
Dividends	-	-	(501,140)	(501,140)
Balance at 31 December 2018	485,000	75,548	3,917,055	4,476,603
For the year ended 30 June 2018 (audited)				
Balance at 1 July 2017	485,000	248,186	3,571,752	4,304,938
Total comprehensive income for the year	-	-	840,828	840,828
Profit for the year	-	-	796,772	796,772
Other comprehensive income	-	-	44,056	44,056
Transfer between reserves	-	21,467	(21,467)	-
Reclassification to profit or loss	-	-	(59,409)	(59,409)
Dividends	-	-	(305,000)	(305,000)
Balance at 30 June 2018	485,000	269,653	4,026,704	4,781,357

CAPITAL ADEQUACY as at 31 December 2018

	6 months ended		Year ended
	31 Dec 2018 (reviewed) N\$'000	31 Dec 2017 (reviewed) N\$'000	30 Jun 2018 (audited) N\$'000
Tier 1 capital			
Share capital and premium	485,000	485,000	485,000
General banking reserves	3,814,880	3,354,610	3,814,880
Retained earnings	82,013	71,978	82,013
Total qualifying Tier 1 capital	4,381,893	3,911,588	4,381,893
Tier 2 capital			
Five-year callable bonds	187,569	187,570	187,533
Current unaudited profits	192,765	41,853	-
Portfolio impairment	304,102	311,524	291,640
Total qualifying Tier 2 capital	684,436	540,947	479,173
Total regulatory capital	5,066,329	4,452,535	4,861,066
Risk-weighted assets:			
Operational risk	3,224,232	2,999,597	3,107,528
Credit risk	28,328,027	26,042,564	26,932,497
Market risk	732,993	443,851	480,491
Total risk-weighted assets	32,285,252	29,486,012	30,520,516
Capital adequacy ratios:			
Leverage capital ratio	11.5%	10.8%	11.7%
Tier 1 risk-based capital ratio	13.6%	13.3%	14.4%
Total risk-based capital ratio	15.7%	15.1%	15.9%

CONDENSED STATEMENT OF CASH FLOWS for the period ended 31 December 2018

	6 months ended		Year ended
	31 Dec 2018 (reviewed) N\$'000	31 Dec 2017 (reviewed) N\$'000	30 Jun 2018 (audited) N\$'000
Net cash generated from operations	659,444	361,353	785,311
Taxes paid	(171,494)	(150,437)	(283,801)
Net cash generated from / (utilised in) operating activities	487,950	210,916	501,510
Net cash utilised in investing activities	(53,835)	(23,233)	(69,775)
Net cash (utilised in) / generated from financing activities	(905,566)	(37,951)	(119,796)
Net increase / (decrease) in cash and cash equivalents	(471,451)	149,732	311,939
Cash and cash equivalents at the beginning of the period / year	3,719,826	3,407,887	3,407,887
Cash and cash equivalents at the end of the period / year	3,248,375	3,557,619	3,719,826

By order of the Board



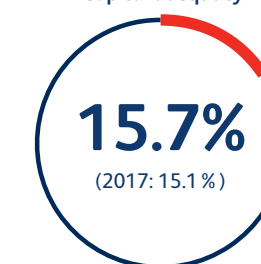
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Windhoek, 20 February 2019

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Capital adequacy



Growth in gross loans and advances



Increase in normalised profit before tax

