



Trustco Annual Report 2013 Frequently Asked Questions

We as management are often quizzed on how the pieces of Trustco fit together and even those investors who have visited our offices and spent a considerable amount of time trying to disseminate the structure struggle with the concept. Our view is that our main business of Trustco is **Micro-financial services**, this comprises of

- (i) an educational institute that also provides financing to its students; and
- (ii) an insurance company which provides short-term, life cover, and free life cover both locally and internationally.

The remaining piece of the material business operations is the property development division (known as the **Landbank**) - which is slowly converting a very sizeable tract of land into cash by way of land servicing and piecemeal sales.

The other business (Newspaper, Air charters, Media, etc.) are primarily support services and don't contribute meaningfully to profits; and as you will observe in our segmental reporting do not form a separate operating unit from an IFRS 8 perspective.

Below are some of the investor queries we have received post the publication of our Annual results and for the benefit of those investors who require clarity on similar questions/issues we have compiled the below.

Integrated report

General

1. Trustco established a new African expansion department in order to solely focus on African opportunities. What would this department do differently from the past?

We have added a few new products to the suite of offering in the expansion unit. It also required a dedicated team of 2 people who devote 100% of their time to identifying opportunities and furthering our expansion plans.

2. According to the workforce statistics, staff count increased by 196 employees, or 32% from 2012. What is the main reason for the increase? In which segment did most of the increase occur?

In South Africa, we opened a 300 person call centre for YAMBU sales in 2012.

3. According to the workers profile, skilled workers declined by 64 people while semi-skilled employees increased by 270 people. What are the reasons for the decline and increase of skilled and semi-skilled staff respectively?

Most non-skilled were in the call centre as mentioned above. We had a large reduction in IT and skilled support staff in the SA office, in line with the plan to exit/unwind/restructuring of the South African legacy business.



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SA Operations

The following was said in Annual Report 2013 and trading updates:

The financial services regulations which became effective in South Africa during December 2012, had the effect that the legacy business in that country became more and more unprofitable in an already depressed market place.

South African operations returned a loss for the financial year of R44.5m (excluding impairment) (2012: Profit of R8m), a great deal of the accounting loss related to expenses for building future capacity and business creation which, under accounting standards, was required to be recognised in the current period. The set-up cost, which accounted for the majority of the losses recorded in South Africa, is a better option than a costly acquisition, which would in any event, had to be converted to a micro insurance operation.

YAMBU insurance policies issued reached 10 500 on 31 March 2013, resulting in revenue from this product of R3m for the first three months. Sales momentum in the Yambu product continues to meet management's expectations.

The negotiations, that started prior to year- end, to acquire 53 regional offices across South Africa, together with assets and trained staff, were finalised and implemented post financial year end. The purchase price is about R12.5m. Revenues will only begin to be generated in the 2014 financial period.

4. What is the average growth in policy members per month? Is the growth accelerating?
This has been difficult to gauge as the call centre will need to be restructured based on the branch network but as sales begin to emerge from the network we should have a better idea of forecasts. Management is operating on various targets but these may need to be revised based on actual incidence and penetration.
5. Are we over the major capacity building?
Capital spend is predominantly done, with the gap between operational expenditure and revenue being reduced every month.
6. Is SA expected to make another big loss in this financial year?
It depends on the uptake and speed of policy sales, but it is unlikely to return an accounting profit at current projections.
7. What is the acquisition cost per policy member? Is management satisfied with the returns being achieved on the investment?
Over our expected horizon of 2 years and based on the funding requirement, the up-front spend is more than suitable should policy numbers materialize in that time horizon.
8. Compared to other similar products launches, has Trustco benchmarked its performance when determining that results meet expectations?
Yes, it is roughly doing as well as the historic uptake of our Namibian products in the group's history.

9. The 53 regional branches purchased would add significant cost without revenues until the 2014 financial period.
- a. Please elaborate on the reasons behind acquiring a nationwide branch network?
To service clients who need to submit original documentation for claims submission purposes, allow sales over the counter, maintain a national presence to deliver other products in future and provide an administration backbone should we roll out with a retailer or mobile operator.
10. Will major investment be required for these branches to start earning revenues?
No.
11. Over one million copies of "Informante" are circulated monthly in SA. Does Trustco print one million copies every month and distribute to readers? Where are these papers printed?
It is printed in various branches of our printers and distributed via current existing networks
12. How are these copies distributed? Is it being successful in reaching the target market?
We believe that it is generating good interest and is reaching the required target market. Some of these are issued to vendors who are able to sell it if they wish, and others are sent to public locations and transport agencies.
13. If one million copies are circulated every month over an average of 3 months, that's 3 million papers. In addition to this, Trustco also have 2 TV commercials. As at 31 March 2013, Trustco has managed to sign up 10,500 policy members. Is this a good result judging by the amount invested to acquire these members?
Yes, if we can continue to generate another 10,000 policies for the same spend, then we will be very happy with the result.
14. Is this cost included in the SA operations? Does the SA operation pay the head office services for the adverts in the paper?
Yes
15. In regards Note 48 (c) "Licensing agreement for South African software" can you please give us some more detail about this deal?
The SA business is now comprised of two main sub-segments. The Yambu micro-insurance products and the "legacy" operations know as Trustco Financial Services (formerly DEX) which was effectively a claims administration and quoting function (for 3rd party insurers not related to the group). Both of these sub-segments rely on the core software of the South African business, but we have chosen to license the legacy business to managers to operate, manage and run this business but Trustco will maintain ownership of the software as it is still being used internally.
16. What is the breakdown of the roughly N\$44m incurred to launch the micro-insurance business into South Africa?
About 4.5 million is for the legacy business unwinding and the rest for Yambu.
17. Under what conditions could we expect further impairments of intangible assets?
Sustained losses in SA and a slower than anticipated policy growth. We will almost certainly have to show a considerable uptake in the product to prove the valuation to technical experts as at 31 March 2014.

Namibian Insurance Operations

18. You mentioned that the planes are also used to fly lawyers to remote areas.
- Does the Namibian operation pay the head office services for the charter? How much did they pay in 2013?
All segments which make use of the charter services for group/internal purposes are billed separately for flights. This same model is used to charge advertising in the Informante... i.e. cost allocated is commensurate with what the market would pay for the service elsewhere.
 - What is the average yearly usage?
The planes need to have a certain number of hours flown billed to external parties to make this sub-segment profitable. Most months in 2012/2013 this was the case.
19. Death claims paid increased 68% while life premiums only increased 13%. Please explain the difference?
Noted, we do always anticipate that over a longer period all products will approach the median claims ratio of the group of approximately 25%.
20. Up until 2010 I didn't see any student insurance and now it has 90,000 policies. Is this a new product?
No, this 90,000 is the course registrations in IOL Education (not insurance product)
21. The "about 260,000 policies at end 2013" you mentioned – is this the policy members excluding students?
This is the main policy and yes excludes students and education element.
22. Student number at 90,000. You saying 4.5% of Namibian population are studying through Trustco (90k / 2m = 4.5%).
This is course registrations, not necessarily individuals.
23. Out of the 90,000 students, Trustco is financing 50% (45,000 loans)?
There are about 45,000 unique loan agreements, but this covers almost all of the 90,000 registrations. Very few students are not financed.
24. Please explain the business model for Yambu Life and its economics.
Yambu life is a term-life product that extends life cover for 5 years, with an advertised premium of R5 per day.

Properties

During 2012, 92,000sqm of industrial serviced land was sold. Segment revenue increased from N\$60 million to N\$119 million, representing 98% growth. Net profit after tax increased to N\$123.2 million from N\$87.4 million. The fair value adjustments on investment properties to headline earnings are 2012: N\$97.2 million and 2011: N\$61.8 million.

25. Does this mean the actual profit from sales of serviced land equals net profit after tax less fair value adjustments (N\$123.2m – N\$97.2m = N\$26.2m) ? Net headline profit for serviced land 2012: N\$29.8 million and 2011: N\$23.8 million. If not, what is the after tax number for land sales excluding the fair value gains?

Yes for 2012, 2011 is on an unallocated group costs basis therefore cannot easily be compared.

26. If you take property profit after tax less fair value gains of N\$29.8m / 92,000sqm you get N\$284.78 headline profit per square meter. The pre-tax number would be N\$438.12 per sqm (35% tax). If this land is sold at N\$1,200 per sqm and the estimated development cost is around N\$300 per sqm the profit should be N\$900/sqm. What are the reasons for difference between the actual headline profits of N\$284.78 and estimated N\$900?
- Some of the sales in 2012 were made on unserviced land with a suspensive clause requiring that servicing be done shortly after the sale contract was concluded. These direct costs, as well as conveyancing costs and similar were incurred in the current financial period, hence variance is due to timing of cash flow.
27. The 2013 annual report estimates the value of the Namibian property portfolio in excess of N\$650 million vs. the 2012 independent valuation in excess of N\$450 million. The value in 2013 is N\$200 million higher, but why is the fair value gains for the year N\$71 million lower?
- The estimates on the independent survey from the former town planned are based on a prediction of cash flow after development has taken place. The independent valuers estimate a significant portion of the land on a forced sale value or at an undeveloped price per m².
28. In the interim 30 September 2012 results, property profit after tax decreased by 26% (2011: N\$19m), therefore interim property profits should be N\$15m (N\$19m /1.26). Then Q3 trading update reported property sales grew by 24.5%, compared to same period previously. At this point there was nothing pointing to very bad Q4. What happened in Q4?
- It rather than there was a very excellent Q4 2012, furthermore almost none of the land remained unsold after December 2012.
29. During 2013, the land bank contributed N\$101m in revenue. The total property revenue for 2013: N\$126.6m (2012: N\$133.7m) is only about 5% less than 2012. Why did the profit fall from N\$123.2m to only N\$18.7m?
- There was a write back on resold properties which had to be transferred from debtors to cost of sales at net-realizable value and then expensed to cost of sales after the new buyers committed to delivery.
30. How many square metres were sold in 2013?
- About 32,000
31. One of your targets was to service 12 – 14 ha of land for commercial or residential purposes. Where is this land and how do the economics differ from industrial land at Lafrenz?
- LaFrenz can be zoned for industrial, commercial or residential land. The decision has not been taken on all phases on what type of servicing will be done, however phase 2 will also be industrial land.

Trustco Mobile

A highlight this year was expanding the mobile based product successfully to a retailer in Namibia with an Africa footprint. In Namibia, this mode of distribution of was very successful and 150 000 new clients were enrolled during the first six months of deployment.

32. Growth in subscribers was much faster in the 1st two months of the product launch. Has the momentum slowed?
Yes. The first 6 months show the fastest growth rates when any of our mobile products are launched.
33. What is the projected number of total subscribers?
It has remained at fairly static levels since March.
34. From the 150,000 subscribers, what has changed in their spending habits that could make this product a success for the retail partner?
We would anticipate that customers spend more regularly and would choose the retailer offering our product over a competitor, even if there were short-term price benefits by shopping at another retailer.
35. On average what is the value of the life insurance for members?
This depends on the member's spend. It is capped at N\$100,000.

Microfinance and Education

36. The loan book in 2010 was N\$216.4 million and its profit was N\$39.4 million. Why after growing the loan book by N\$122.9 million, net income is N\$11.6 million lower than in 2010?
This is not a like-for-like comparison as 2013 and restated 2012 include group allocations.
37. There was a big jump in loans advanced to students to N\$213 million. Was this the result of increased term financing or better distribution or both?
A combination of the two.
38. Is it expected that Educational Loans advanced will exceed Educational Loans Repaid while the loan book is rapidly expanding?
Yes, the only reason why this would not occur is if repayments on term debts created a negative relationship.
39. Is there any reason to believe that the deduction code might be amended?
No, a letter from the ministry of Finance confirming our deduction code was issued to us in April.

Annual Financial Statements

Statement of Financial Position

40. N\$8.5m was loaned to Next. What was the purpose of this loan?
This was actually an overpayment of management fees to Next. The fees are based on audited financials, but are estimated quarterly. Once the audited results came out, the penalty on not meeting targets etc also kicked in generating a reduction in the fee payable. The amount of the overpayment was not yet refunded by 31 March 2013.
41. There is a deferred tax on assessed loss of N\$64.5m, up N\$6.9m from 2012. Does this include the N\$44m loss from SA operations? Given the accounting change on deferred tax liabilities is there any deferred tax carried on Lafrenz?
There is no capital gains tax in Namibia, therefore LaFrenz is only taxed on the actual sale as a revenue proceed. The accounting change relating to IAS12 only affected SA properties that were revalued under the IAS16 model.
42. How much does the Group need to earn over the next few years to use up the Deferred Tax Assets? Is this amount reasonably achievable?
About R220m of taxable profits (N\$64.6m assessed loss divided by average tax rates) in the next 5 years for the relevant entities. If we start showing that the assessed losses are being reversed by way of taxable income, then since there is no prescription on the timing of the utilization (i.e. can be used over longer than 5 years), we can carry the assessed loss for a longer period. The external auditors take a view of a 5-year recoverability of the tax assets, not the Receiver of Revenue.
43. Please explain why the property profits are stuck in debtors and are unable to be collected in cash or move to the mortgage loan book?
Some of the registrations were not able to proceed due to municipal red-tape around transfer and approval of servicing. The rest of the delay was due to purchasers requesting extensions due to bank delays. A lot of these purchasers are setting up combined loans to fund their new buildings, start up operations and their land purchase; hence they are tied up with bank credit and business model approval processes. We would only loan to an individual or company that already had an income stream or operational businesses as we do not have the expertise to assess a start-up venture from a credit perspective.
44. Previously Trustco expected to have 30-40% of property sales converted to mortgage loan book. In the MD's report you now state the group will provide approximately 15% of buyers with mortgage finance. What has caused the change?
As stated above, we anticipated more buyers to approach us for loans, but are now finding that a lot of these buyers are able to access funding from banks, or have overseas backing.
45. Is a mortgage loan from Trustco the first or last loan available to the buyer?
Every buyer has the opportunity to apply for a mortgage with Trustco provided that the land is secured against the mortgage.
46. Included in other receivables is an amount of N\$42.1m that relates to royalties due by Econet in Zimbabwe. But the other receivables are only N\$30.8m. Please explain?
This is included in trade receivables as it related to revenue previously recognized.

Statement of Comprehensive income

47. The facility fee paid to Next was up 50%. Please explain this?

There was a negotiated increase in the fee charged to Next by the company for assets pledged, and surety provided, by Quinton van Rooyen to reimburse him and Next for the increase in risk on SA business due to change in business and loss of control over the asset.

48. Administrative expenses are up by N\$92m. Please provide a schedule of these expenses.

N\$43m is already explained in the note, the remaining amount relates to additional once off costs to exit some of the SA contracts and launch Yambu in South Africa

49. Why did Audit fees increase by 121%?

This increase was justified as a substantial increase due to the extent of the audit in 2012 and the fact that the interim audit began earlier than in the past. Note that audit fees are only recognized on invoice date, not to the period in which the audit relates to. The annual year-on

Statement of Changes in Equity

50. The policy of the group is to declare dividends between four and five times cover, yet no dividend was declared this year. Why was this policy ignored?

An interim dividend was declared on 2 November of 1.9c per share. The reason no final dividend was declared was because we had already exceeded our stated dividend cover (1.9c dividend, 4.65 HEPS = cover of 2.4times) based on the policy

Segmental analysis

51. Condensed Segmental Analysis:

a. Please explain the large swings in Inter Segment numbers in the "Micro Insurance", "Micro Finance" and "South Africa" segments between 2013 and 2012.

South Africa – a substantial borrowing cost in SA for funds lent by Namibian operations as well as significant cost for group intervention to assist in refocusing the SA operations.

Trustco finance and micro-insurance in Namibia became a net lender of funds (see SA comment above) as well as many of the services for group and properties are incurred in these segment and reallocated to the other segments.

b. Please provide a recon explaining the differences between the 2012 Segmental Analysis in the **2013 Annual Report** and the 2012 Segmental Analysis in the **2012 Annual Report**.

This was all due to an allocation of group costs and head office revenues, however it is not a simple percentage on revenue or similar and is based on an actual expenditure and once-off allocations for unusual events.

52. The segment numbers I have are outdated. Only the 2013 and 2012 are currently correct. Could you please update these numbers?

We have moved to the new blend of segments so we have not recalculated on the old base. If you want to try recreating, remembering to add back legal settlements into 2012 Head office segment and increase the costs in line with the general cost increases. Note that SA probably shares in the costs of head office more or less in line with their revenues.

53. In 2011, there was an N\$60.3m gain recognized relating to legal matters relating to DEX group and the SABC. Where was this included in the segment report?

Both in Head office segment

Other: Reports

Quarter to quarter movements

The trading update for 9 months ended 30 December 2012 reported headline earnings per share of 7.31 cents (2011: 10.73 cents).

At the end of the update you stated, "Shareholders are reminded that historically the final quarter of the financial year has on average delivered higher earnings when compared to the preceding financial quarters".

Then 3 months later the year end results show headline earnings per share of 4.65 cents. That is 2.66 cents per share loss in the final quarter (a quarter which is supposed to be the most profitable).

54. The South African micro-insurance segment contributed about R7.3 million (0.99 cents X 737 million) at the 3rd quarter. During the 4th quarter SA operations went from contributing 0.99 cents to a loss of 9.9 cents. What happened in the 4th quarter?

In South Africa We invested a significant amount in the staffing of a fully functional call centre of 300 people and went on an aggressive advertising campaign for YAMBU, these costs were unfortunately compounded by the fact that we announced that many of our contracts were expiring and would not be renewed in the legacy business, as a result there were certain debtors that were written off and IT development previously capitalized to the SA business that were then expensed.

As noted above, the segmental basis changed, requiring the allocation of group costs to the business units in accordance with IFRS 8. On a comparative basis, each segment would have experienced a commensurate reduction in net profits as at end December 2013.

55. Education and finance profit was up 22.5% at Q3, why did it end the year with only 9% gain? Why did you mention to expect higher earnings in the final quarter?

As noted above, the segmental basis changed, requiring the allocation of group costs to the business units in accordance with IFRS 8. On a comparative basis, each segment would have experienced a commensurate reduction in net profits as at end December 2013. Revenues actually increased by well over 100% in this segment from the half-year mark.

56. Property segment was up 24.5% as of Q3, why did it end the year so depressed?

As noted above, the segmental basis changed, requiring the allocation of group costs to the business units in accordance with IFRS 8. On a comparative basis, each segment would have experienced a commensurate reduction in net profits as at end December 2013.

57. You mentioned "Sales momentum in the Yambu product continues to meet management's expectations." What are those expectations?

To have at least as many policies as a mid tier competitor within a 24 month time-frame. Mid-tier competitors have between 50,000 and 100,000 legal policies issued.