Further commentary on 31 March 2014 Final audited results

Transcript of Conference call

Held via teleconference on July 7th, 2013 at 16h00 (GMT +2)

Conference leader: Ryan McDougall – Group Financial Director (RM)

Good afternoon everybody, I'm Ryan McDougall, the Group Financial Director of Trustco Group Holdings.

The conference call today is going to be a quick update in terms of the final results and some further queries received from shareholders.

I will go through a few questions I have already received from the Shareholders and then I'm going to move to an open Q&A session by running through the list of participants and lay it open to people who are on the call to pose questions to me.

The transcripts of the Investors Conference will be put onto our website shortly hereafter.

The results have been quite good this year and you will notice that our Headline Earnings and our Profit Growth is up and I think there is a lot of interest in terms of the Share price as well as the financial performance but also on the back of exciting things going on in Trustco; so I'll try to get to that as I go through each of the segments.

I'm going to break the conversation down into our main business Segments: Insurance, Finance, Properties and Education, and then talk briefly about borrowing and balance sheet and then move on to questions.

Insurance

The nature of Trustco is such that, many of our products carry both the Short term element and the Long term elements and we are guided by the actuarial assumptions as to how much and what prorate rate we should use for each of the dual product premiums. An example is our Legal Shield product which protect people in case where legal matters arise but with a rider funeral cover. A lot of these short term products are therefore co-underwritten with a life insurer. The actuary looked at the claims incidents and determined that more of the claims than expected were life claims. There has therefore been a decrease in the short term premiums but there has been a commensurate rise in the long term premiums or the life premiums.

The insurance in Namibia has grown quit substantially from last year of that growth a lot of that growth has been to credit insurance but I can say of the I think it's a 75 million growth in earnings has also resulted from the sale of the new product which is Yambu life. Yambu life has a significant number of policy holders under a term life product the premium for that is slightly higher than some of our other premiums because the payout is a lot more and it's up to 5 million guarantee payout hence the premium growth was quite favorably with that, so I would say the majority of the premium growth in Namibian life insurance has been to Yambu life.

In the annual report we describe credit insurance where it talks about indemnifying Trustco Finance against non-repayments, I would just like to clarify that statement, to say that the credit insurance sold to students at the moment indemnifies the students against repayments on their own loan in case of death disability and retrenchment. It terms of the Group, the Group will make a loss because the Group puts itself out of pocket by the closure of the student loan but the student is then indemnified against payment and the claim is then processed in our insurance department.

In insurance the insurance assets have shrunk but the liability has increased, the 2 factors are at play in insurance, there are:

- that the insurer does a large dividend per annum and where they do have excess assets in the insurer these are distributed among other opportunities and sometimes within the Group; and
- at the same time the has been a large actuary liability increase within the Group which has resulted in a large increase in the balance sheet. I believe the insurance liability stand at somewhere round about 52 million this which is significant growth then in the previous year.

In South Africa we continuing to sell the Yambu legal product, which is a legal insurance product, underwritten by Guardrisk – this products also contains a funeral benefit cover which applies to the primary member of Yambu Legal as well as for the spouse and the children of the member - so again it's a rider product. We believe that it is the right product for South Africa, these policies has been growing quite steadily throughout the year but at the same time in South Africa we have also introduced a new product which is on the back bone of our free life product which is called Scorramore that product is linked to cellphone airtime spend and it's a free to user product, very similar to our Econet and Leo concept or similar to what we are rolling out in Brazil. The sales have grown steadily and we are still on target to meet our target that we set in September to break even somewhere between 12 and 18 months away. We still feel that we are on track to achieve this, and since we have spent a sizeable investment in South African Insurance business - we do feel that we are still on track to recoup that investment in time and make substantiation profits to do that.

Someone asked us where we thought that our large growth in this business would be in the next two to five years. I think if you look in isolation, the insurance business in South Africa seems to cost the Group quite a lot in the moment, but the jaws of that cost to revenue gap are narrowing quite substantially and the momentum and growth in that sector in the next two to five years will come from the South African segment I believe.

The growth in the South African insurance operations from last year to this year after normalizing for elimination of the legacy business, was that we had only a small amount of insurance premiums coming from South Africa i.e. 25 to 26 million of insurance premiums from the Yambu legal product.

In South America we rolled out a pilot in Brazil and that again is the free mobile concept – i.e. it's a free to use insurance product, where the user gets a type of death benefit, as long as he is a topped-up subscriber of the mobile operator. At this stage I can't divulge more details because the pilot is still subject to non-disclosures but we should have some results from that before the end of the half year and see whether or not the pilot will be rolled out on a national basis in Brazil and whether or not the Brazilian telecom operator will be interested in rolling out their product into other countries in south America. These are quite interesting times but as it's still quite private and sensitive at the moment we will only be able to update the market on the performance of the product in due course.

Finance

The big news in that sector is potential acquisition of Fides bank, which we hope to receive confirmation from the bank of Namibia and the Namibian competition commission that we are approved as the sole shareholders sometime towards the end of July or early August. In which case that will be rebranded to Trustco Bank Namibia and we will look to incorporate some of the lending being done in the student finance and mortgage finance into a new division which will solely focus on lending products and banking type models.

In terms of the student loan book, what happened in the past is that we now have 2014 being a substantially good year in terms of student growth, the book currently stands at over 600 million in loans and we are hoping to continue at least the dollar denominated growth in the current year and grow that book to a sizeable portion of lending and continue being one as one of the largest assets in the Group. It's still relatively well performing with NPL's below 5%, that trend has been maintained for the last 2 years now, so we are not expecting any come up logic from the new loans to come through.

A large number of the loans are still sitting in the government deduction code and that is potentially a threat to how large and how fast that book can grow - but I think if you look at how future strategy with the acquisition of the bank and increase in the amount of mortgage lending we don't think we are by any means restraining ourselves in the student finance market in the future. We will continue to write good quality loans on that side and continue to see how that can grow organically whilst ensuring that we still have low NPL's in the student loan book and later merging that performance with some of the Trustco bank products like mortgages and SME loans.

The education loan book in terms of the market share for student loans is by far the biggest student loan book in Namibia in terms of the Micro-lenders. We are one of the top 3 or 4 with some of the banks micro-lending books, Letshego being slightly larger in asset size than ours. We have approximately 10% of that micro financing market at the moment via that student loan book.

The number of clients hasn't increased as quickly as the number of loans - reason being that the price of educational courses continues to increase and at the same time we have also added things like educational tools such as the kindle to people in addition to the course payments. This is so that we can deliver course content wirelessly and save on other printing course and distribution of text books. We have a large department of people from the education sector looking at working and translating educational textbooks into kindle format so that they can be wirelessly delivered- Namibia is the second most sparsely populated country in the world - so delivery of course materials and getting DHL out in some of the outlined areas is quite tricky. The take-up on kindle and wireless products has been pretty good.

The ROE in the student finance business tends to fluctuate quite dramatically as you have seen in the segmental reports, reason for that has been in 2012 to 2013 the has been a large amount an raised organically via the Group policy as well as a dividend that was paid. 2013 to 2014 we tried to approach a more realistic number in terms of a return on equity for a pure lending business and that's been driven by a tranche of increased debt as subordinated from the group and our capital and it has a value in terms of our banking model.

The average outstanding tenor for the student loans is still 3.5 years.

The provisioning methodology hasn't changed from last year: we still provide for 100% of all students who have payments that are outstanding for more than 90 days.

Property

We effectively have two main streams of 2014 income in the Group for property:

- Elizenheim sales, Lafrenz resales and rental income.
- In term of non-revenue we have the fair value gain on properties.

As for Elizenheim there was 174,000m^2 which was sold in phase two of Elizenheim and the average selling price of Elizenheim was N$1250/m^2. For IFRS purposes we had to defer some of the revenue until the property is actual ready for top structure, that's part of the reason why actual sales numbers don't add up to revenue.

If you add that to the fact that many of the Lafrenz sales were replacement sales, i.e. parties that were unable to acquire financing for the erven in Lafrenz, and those owners then resold to other third parties. Note that our agreements require that all owners develop their land, so these properties were effectively re-acquired by the Group at the original cost and then resold by the group not the landowner. There is still a long list of people standing in line to try and get hold of these properties and so some were sold at a substantial profit. This generated a 95million revenue in the current year.

The cost to service erven still remains at round about N$300m so the gross margins are still intact there. There hasn't been any increase or decrease in that value of the servicing.

There is still a high demand for entities that can provide services land and Trustco by far in terms of the Windhoek basin is one of the best in terms of providing land to the public. The municipality has taken a view that they will be providing service land to low cost housing I the future. That has helped us to increase our market and demand for our service land at that time.

Lafrenz extensions 2 and 3 we were not able to sell any new of the Lafrenz land in the 2014 financial year and that was due to ongoing delays from the municipality to approve our service land on the erven.

We are expecting approvals to come through in July 2014 and in which case the Lafrenz phase 2 will begin sales in 2014/2015. All of Lafrenz is an industrial land that can be used for heavy industrial as well as commercial properties. It's unique in the Windhoek area based as there is no other area where you can do heavy industrial work because of the low lying water table. So there is a captive audience for the demand.

Selling prices in Lafrenz for phase 1 where about N$1300/m^2 and to we expected to grow from N$1500/m^2 to N$2000/m^2 - again that's driven by market demand.

Herbosblick and Ondangwa are other land holding that we have mentioned that in the annual report. Herbosblick is a large portion of land outside the city limits which is going to be developed in future for residential development. There is 2400m^2 in Herbosblick, and in Ondangwa, which is a town in the north there is approximately 30 hectares of undeveloped land that we also intend to sell.

If we do manage to get approval for Lafrenz which we are hoping to get soon. We will then have a Lafrenz phase as well as an Elizenheim phase in the 2015 financial year. So I think you can reasonably expect good news in the property division to rise because of the fact that there will be more than one phase to be sold this year.

Some ask why sales were so rapid for Elizenheim, I think that there has been a large amount of demand for developed erven and to put up top structures. The growing construction business in Namibia requires a lot of work to continue feed its large engine as well as the large amount of people who are in the construction industry tend to lose skills if there isn't work being done. As I have mentioned earlier the municipality will only provide land for low cost housing, so those high-end developers are really thirsty for land as their development will only be backed by individual demand - which as we have seen its very high and contributing to the large increases in prices in Namibia.

In the financial statements we mentioned unlocking the value of the property business and someone asked what the best ways to do this are. There are only three ways of doing that in my mind:

- One: you need to sell land at the demand that comes available when we get the municipal and residential approval for the developments;
- The second thing will be to sell off the whole entire land to one investor. I think if you do a fair value of the land the valuation of that will be in excess of 4 or 5 billion which is 3 or 4 times the market cap of Trustco and - I doubt anyone will be paying that at the moment.
- The third option will be to create a separate spinoff of that of the existing property company.

At this stage there is not enough current income generating assets in the property holding company so at this stage we still focusing on the strategy to generate proper assets from that land by selling off pieces of it.

There is a question about the assumptions used by the independent valuer for the fair gain value, I can tell you that we don't have much to do with what the valuer takes into account in determining the price for the square meter of these revalued amounts. They do take a conservative view as there is no top structure in the land or any servicing done to the land so the land even on the revalued prices are very prudent. Valuers tend to base some of their factors on the actual selling price of like for like land in the locale. So the value would be based on those sales of undeveloped land in the area around about the same time for the last 2 years – also giving an understated value.

The late increase in the inventory which is related to the 300million of inventory from Elisenheim which is the land available for sale in the next 2-5 years.

There is also a larger increase in the property advances for the year and that is due to the fact that certain buyers of Elizenheim opted to pay off the value over an extended period of time (via a loan) in which case those sales move directly out of receivable into the loan section. Note that we do now pinch together the mortgage loans, student loans and property loans section. This is so that if we do move next year presenting more of a banking type set of results those assets are ready starting to be classed together.

Borrowings

There is a question about our Net Debt vs Earnings before Interest Tax, Depreciation & Amortisation (EBITDA) covenant. We do have a Group convent that's an EBITDA to Total debt convent and we are currently at a ratio of below 350%. We have managed to stick to that ratio and we will continue to comply with it as time goes forward.

Debt levels have increased significantly in the last 2 years but that is due to our view to create further acquisitions to advance this book. We are looking at increasing that debt level with the services of the bank growth as the is a capt on that a capt of 1 to 1 asset to liability ratio, it does prohibited certain growth in the banking side of that to consider carefully that covenant should be extend to include the banking group or how the banking group will operate right now and Fides bank will operate in a 6 to 1 covenant ratio as the capital adequacy in Namibia is limit to 15%.

Balance sheet

There has been a computer software transfer from indefinite to finite life which is a N$162million of software which is moved from indefinite to finite life, the reasons for that is partially to be more prudent approach to minimizing the length of time an intangible carries value on the balance sheet and moving to a more tangible asset base. We also had some advice from the auditors that no software program will last forever and we should certainly think about bench marking that at the rest of the Group, therefore we took the view that the product in South Africa in terms of the computer software is more closely alighted to our legal shield software which is currently on a 10-year amortization plan, the N$162 will therefore be amortized over 10 years.

Note 25 lists deferred contract revenue of N$62million on portion of new sales of Elizenheim that relates to developments still to done at N$300m that will be released to the balance sheet in the next 10 months as that servicing begins.

We have maintained the dividend policy a 4 to 5 cover ratio on headline earnings and we will continue to do that and we will certainly not decrease that at any time in the future but if there are excess available profits in the group we may look to increase the dividend and provide a little more value to shareholders, the is certainly no intention of cancelling the dividend or going to a smaller dividend.

Someone asked a question about how the top 10 shareholders view the long term investment prospects of Trustco. I can't speak for the mind of the shareholder, but since the rapid growth in the share price recently I assume that eventually one of them would perceive that growth to be slowing, and that exiting or liquidating their portfolios would provide positive alpha. As it stand now we have a very good group of shareholders that are very supportive business and decisions and the perception is that they are in for the long haul and continue to support the share price and growing efforts in the group.

Future strategy.

Brazil is one of our target expansion areas, we continue to look for opportunities in Africa and rest of Africa.

There has been very little said in the terms of a Shoprite this year - we haven't by any means cancelled their contract and we are standing by to see whether or not Shoprite are interested in rolling out in rest of Africa or South Africa; and the lines of communication are still open.

We continue to explore the mobile concept in the rest of Africa and have engaged in countries in West Africa and sub-Sahara Africa as well. We are looking at this product and seeing what we can do in terms of a beneficial base for some of the micro insurance segments, in South Africa and rest of Africa as well.

Where will the Group be in three to five years? I think that there has been a defined strategy in the last few years to provide some of the growth via acquisitions, some of it through asset acquisitions others through life businesses. We will continue to look at the opportunities that do present themselves predominantly in Namibia and South Africa for acquisition targets. But at this stage most of our growth will be organically in Namibia as well as looking to boost the earnings in South Africa which can grow the earnings to a point where that business is profitable and repay the debt it has borrowed from the Group.

That's the questions I have received from investors I will open the floor, I will go through the list of people that has accepted the call and you can now ask questions.

Riskowitz : Hi Ryan, thanks very much for the call and for the detail information it is very useful , I just have couple of follow up questions , when the student loan book growth slows is you target still to have the NPL's at 5% of the loans?

RM: yes we are bound by covenants in terms of the lenders that we must maintain less than 8% of non-performing loans so it is important for us the we build a buffer if there is any sort of economic shock that we buffer our own covenants, that is why we continue to target only the best quality and keep those non-performing loans below 5%.

Riskowitz: so you can tend that up to a maximum of 8% when the growth slows.

RM: yes in theory.

Riskowitz: second question is only on the debt equity ratio, do you have a sense of what is actually a normalised debt equity ratio given the fact that the investment properties are actual a conservative fair value of the balance sheet?

RM: well our conservative view is that we would like to actual get to a point where the debt equity ratio is 4:1, this gives us the ability to fund the bank and the student finance loans while still providing access to debt for acquisition in the insurance business, that also ties in nicely with the Trustco Finance covenants of a 4:1 debt equity ratio, the Fides bank ratio of 6:1 is a little bit risky for the Group at the total level so we will try is slimming that down.

Riskowitz: Last question, the insurance operations in South Africa, the Yambu and other products are you still having an underwriter there or do you have a plan to bring that underwriter into the Group.

RM: yes certainly our long term has always been to apply for an underwriting licence both in the short term and in the long term, we have had discussion with the financial services board in south Africa already in terms of what we would like to do in the future, the feedback from the financial services board has been that we do need to go as a cell captive arrangement till such time as they believe that we have got a stable policy base and a stable premium base. I think that we are approaching that now so certainly in the next year or 2 we will be able to back to the FSB and apply direct for those licences and there wouldn't be any objections. In addition to that the FSB did take a strong view on our operations in Namibia and they felt that we were adequately capitalised and that the business was well regulated and well managed, so they felt that this was good support in terms of any licences that would be applied for in South Africa.

Riskowitz: Great thanks a lot

Sygma/Snowball: In note 24 you mentioned that Elizenheim contributed 44 million**.**

RM: Oh yes Leo, I didn't answered your question that you sent to me earlier. I will get to it now. Elizenheim Property Development Company has a separate stand-alone of financials generated profits of 147 million. That includes the fair value gain that is already included in the Group in terms of business standards. Of that 147 million, 80 million of that is a fair value gain. That is reversed on a group consolidation gain, as well as 7 million of that for new interest debt post acquisition so that the total sustainable earnings for EPDC for the 2014 financial year were 110 million. That excludes the Group and Admin costs that were allocated across the Group once the divisional results were consolidated. So, the actual Headline Earnings contribution excluding G&A for Elizenheim is close to 95 million.

Sygma/Snowball: Will you be able to maintain the sales of land in 2015 and onwards that you have done in 2014

RM: I think the phase for Elizenheim, which is phase 2 and 3, are fairly similar in size, so we can assume a similar number in terms of revenue for those years. Obviously the market will drive the price, but we can't see the price being lower, so it's safe to assume that same amount of revenue in the next 2 years.

Anchor Capital: Share options or any structure like the current structure with the IFC, Recap. I know you had a buy-back this year. Is the anything with the IFC at that moment?

RM: The 10% of the Recap that was repurchased by the Group in March, those are the deemed treasury shares that you see on our equity standard. The IFC is currently a 40% shareholder. They have an option to go 10%, provided that that will not put the

Van Rooyen family below 50%. At this stage, if they do dilute the Van Rooyen Holdings, then IFC can't exercise access that option at this time. So they will remain at 4%. They do have what they call a liquidity put option, it's pretty standard for the IFC when they do an investment of this case. They do take preemptive right to resale back to the sponsor, but it would be a market terms. At this point, it is an unlikely scenario.

Anchor Capital: The IFC, at what price will they re-acquire the shares, was it at 1.28?

RM: It's actual built on a formula, which was determine at the date which they entered at, so a price multiple. They entered, I think it was at a P.E of 16.

Anchor Capital: Is there any open market purchases at the moment?

RM: From the Group's perspective?

Anchor Capital: Ja.

RM: No, we have a few projects on the boil that we need capital for, so we don't look at increasing that repurchase agreement at this time, but we will keep that option open. The price is a bit expensive for us when buying in shares at 91 cents and not R2.00.

Anchor Capital: For the SA operations, you lost only 60 million, is that correct?

RM: Correct.

Anchor Capital: What would you say is a reasonable figure for the next 12 months; will it be a profit or loss situation?

RM: We don't expect to be in a profitable situation in the next 12 months, but we do certainly expect the loss to come down significantly. And we are, as I said before, we are expecting a break-even on a month to month basis somewhere between 12 and 18 months. So certainly on that basis, you will expect the 2016 financial year for South Africa as a segment to be profitable.

Anchor Capital: In the previous year you said you needed to have sold 50 000 policies a year. Was that correct?

RM: Once we get to 50 000 policies we are on a month by month break even.

Anchor Capital: So you are saying you are getting there?

RM: Yes the sales are growing substantially, we are not growing as fast as management expectations but others believe that we are quite a good job in terms of what we are achieving.

Anchor Capital: Emerging markets, there was a 46million loss expected time frame for that to be brought forward, any potential there.

RM: Of that 46 million, 43million is a once off impairment of bad debts of the past, so the actual loss for the emerging market group is really just staff cost and some small marketing material that we have rolled out in Brazil. In order to roll out the product so the impact on headline earnings of the emerging market right now is fairly low as soon as we do see one or 2 projects coming online that will immediately become profitable.

Anchor Capital: The Shoprite project is it going to happen in the next 12months?

RM: I would say from a Trustco prospective we are quite bullish about that, we do feel that Shoprite has got a good option with us in order to roll that out in the rest of Africa. There has been a little bit bearish in terms of what we want to do with them in South Africa, so I think we could possibly say South Africa is a long shot at the moment, but there is a very good opportunity that they may elect us to roll out in other African counties and they haven't given any indication that won't go forward.

Anchor Capital: You are still with them in Namibia?

RM: We are still with them in Namibia, in fact they came back to us and ask that we still do one or two interesting things in Namibia as well but hopefully we can update the market on that soon.

FF&P: Thank you very much for the update on everything just one question from my side, the new acquisition of the Fides bank, you mentioned that you are going to use this for assisting in student finance, mortgage loans and SME lending can you tell us a little bit about this sort of opportunity that you see in Namibia and what sort of growth we might expect going forward.

RM: the penetration rate to the under banked or non-banked in Namibia is low, or should I rather say the percentage of non-banked in Namibia is high, as there is a large distance problem for people's access to branches and access to ATM's and cash has always been a problem with Namibian banks in the past, Fides looks to address that problem, providing SME and small personal loans to a large majority of people in the Northern part of the country, via fair distribution through a large number of agents driving around and doing a door to door banking service. It is a very good financial inclusive model but unfortunately they were affecting by a large number of bad debts and poor performing loans and they sit in a situation where they don't have any performing products. The impact of those poor performing debts has been quit server on them. Our view is that, it is a social responsible ling-ling practice reaching the under banks and the non-banks I think the model was probably an inadequate one another cost base certainly is low. We are going to try and look at options where we introduce a mobile or money free banking approach to a lot of this people so that the distribution channels that certainly sorted out and cater for a lot of the segment growth in that under bank or under privilege market, we will continue that as far as we can at the same time we do need to open the bank strategy at other more traditional banking products like personal loans which will include student financing and mortgage loans and a lot of the mortgage loans will include the leverage of the properties that we already have, giving them the first right to a mortgage loan that we do sell to them.

FF&P: in terms of the NPL's what was the rate when you took it over?

RM: the NPL rate in December in Fides was about 32% that was on a loan book of N $34 million.

FF&P: the property business seems to be a major proportion of your revenue for the profit of Trustco this year, in terms of any volatility in high risk, what is it that you see in going forward and how do you see those successes being translated in future?

Second question is with regard to the administrative expenses that have grown, what is the primary reason for the growth in it?

RM: I guess for non-Namibian it is quite difficult to see the property prices growing, part and parcel with the price of property in Namibia and a total lack of supply of land in Namibia, so do we think that Elisenheim, Herbosblick and Lafrenz will address that? Yes, there is a major and a drastic shortage of service land in Namibia but certainly no shortage of arid land, servicing and electricity to these places is a problem and we are looking to address that. The price growth hasn't slow at all and I think in fact recent reports said that we are one of the top 4 fastest prices increases in the world apart from Dubai, Reo de Jeinero and Hong Kong. Our view in terms is that there is a good chance that price increase growth will slow, by how much and how fast it will slow we are not quite certain so we try to be prudent in all our estimates, there is certainly no risk of a bubble at this stage, just clearly because there is no supply and there is a growing middle class who are looking to acquire land and buildings as well as the growing market in Windhoek for urbanization of many our industries. At this stage we are not worried about the risk and certainly this is not a short term or medium term risk for us. In the long term the group will look at addressing that risk by generating income assets of those holdings. So we will look in the longer term to build some top structures, like shopping malls, residential developments or commercial developments and create more of a mature property portfolio.

The group admin cost I believe that the is a note detailing that in the financials, and you will see that a large portion of that relates to the impairment on the econet receivable of 42 million as well as obvious increases in staff cost relating to the roll out in South Africa, compared to previous years we almost doubled our staff compliments for the whole group to the 50 branch offices that we opened in South Africa, in addition to that the overhead branches is substantially more than it was in the previous financial year so we are continue to look at how we can maintain the cost them and not grow those cost the as well as providing a revenue stream that will support the growth the and the is part and parcel with our south Africa strategy to try and achieve that within our 12 to 18 month cycle.

Buckley: the annual report mentioned N$520 million over the next 2 years in revenue from Lafrenz, can you estimate about what the profit margin will be from those over the next 2 years.

RM: the selling price of Lafrenz is somewhere between N$1500 and N$2000m and the cost to service it is at N$300m. The sale of that which is the fair value is the value we have recognized in the past to be released back into the income statement is about N$250, so your gross margin on that is approximately 74%.

Buckley: so I assume that N$520 million is based on the approval that you get towards the end of July of Lafrenz phase 2.

RM: that is correct and actual that approval is for phase to and phases 3.

Buckley: What are your actual insurance policy numbers?

RM: we have taken the view that we will not disclose the policy numbers, and I think you will see that a lot of the insurers don't do that until they reach something like 10 million policies, so we will certainly announce once we reach 10 million.

Simonis Storm: what is the impact of the current South African economic environment on your business and the roll out of your insurance policies?

RM: we have already seen slowdown in terms of the monthly sales that we are able to do, a lot of it is because of certainly an oversupply of insurers in South Africa but we aren't looking to provide another level of debt to the consumer. First and foremost the insurance product is not an ongoing commitment, a person can cancel their insurance product at any time and we don't see that as being an overly onerous commitment on an individual and we try as far as possible to assess the persons affordability before providing him with the policy, in addition what we have observed with our new market is that, many of the policy holders that we get for the Yambu legal and even the scorromore product are people who are totally uninsured or never had an insurance product before, so our view is that we continue to grow the market and insurance. It can certainly bankrupt someone if you don't have the proper legal, life or funeral cover especially in the African environment. So yes we have been impacted by certain economic factors in South Africa but we are definitely looking at continuing to grow that even in spite of the economic problems in the insurance revenue line.

Simonis Storm: have you received a lot of cancellation?

RM: yes we do have cancellations and it's not really endemic for South Africa, our cancellations is about 10 to 15% per annually that has been historically observed in Namibia as well as South Africa.

Simonis Storm: since we are entering an upcycle how do you expect that to affect your NPL's especially on student loans?

RM: there will certainly be an impact on the student loans, we ensure that the loan is affordable by making sure that we build in a small amount in repayments calculations

, so that students are able to afford some small amount of price shocks that comes through and the increase in the banking rate, if the rate does continue to the expectations that most analyst are predicting we will should see a rise in the NPL's and I don't think that is an unusual cycle for the banking institution to observe - as I said earlier that is part and parcel with why we try to remain well below our covenants for our loan ratio.

Simonis Storm: how are you planning to integrate the Fides bank into the Trustco model, are you going to move the head office into the Trustco buildings or are you going to leave is separately and also how integrate are the operations going to be with Trustco.

RM: The first thing to know about FIDES is that FIDES isn't entirely a bricks and mortar bank it's more of a mobile bank and that most of its sales are done by this agents who have the time to drive up north and do sale to the villages. The branch network is that they do have 5 branches in the north, it's almost certainly for agents to check in and we will certainly look to reduce the amount of branch overheads that they do have and as I said before introduce a mobile/cell network. We will be moving the head office down to Windhoek.

---------------------- Conference call ended 16H46 ----------------------