

Financial Results 2014

Trustco Group Holdings Limited
Unaudited Condensed Consolidated
Interim Results
for the six months ended
30 September 2014
and Interim Dividend Declaration



Net profit after tax

↑ 98%

Headline earnings

↑ 37%

Revenue

↑ 56%

NAV

↑ 25%

Nature of the business

Trustco is a banking and insurance group, operating in Namibia and South Africa.

Business review

Trustco's 2015 interim results show an increase in net profit after tax of 98% on the 2014 interim comparative. An increase in the returns from investment portfolios, coupled with a larger loan book generating higher net interest before impairments contributed to most of the increase. The increase was however offset by a reduction in insurance premiums received as a result of the curtailment of the South African legacy business in 1H2014 and an increase in the loan provision charge when compared to the comparative period. Non-performing loans measured 3.9% of gross advances as at 30 September 2014 (2013: 4.3%).

Six months into the 2015 financial year and Trustco has already seen some significant changes in its business. The acquisitions resulting in Trustco securing its first banking licence and the additional 2,600 hectares of land were the significant highlights in the Group's long term growth plans. The share price has reflected Trustco's continued efforts in both local and international markets and has improved from R1.19 as at 31 March 2014 to R1.95 as at 30 September 2014. Coupled with the dividend stream this represents a 66% growth for shareholders in only six months.

Insurance

The Insurance division remains on the cutting edge of affordable insurance as various new products and ideas are currently on trial or being launched in Africa and other emerging markets.

The division benefited from substantial gains in its investment portfolio. NAD15.4 million of fair value gains was augmented with realised gains of NAD258 million. The decline in insurance premiums is predominantly due to the cessation of legacy business in South Africa which operated a high premiums receipting base, but very low margins in FY2014. In Namibia, a decision was taken not to burden Insurance customers with a premium increase in the FY2015. This decision was made to demonstrate to loyal policyholders that we remain committed to being affordable – whilst still providing the best value in the market.

Banking

The banking operations now run a portfolio of lending assets and deposits across five branches in Namibia and the Group expects the bank to be one of the main areas for growth in the Namibian operations.

Gross advances grew by 46% from the comparative interim, predominantly due to the increased demand for student loans, but also coupled with an increase in secured lending. The Group remains firmly committed to growing this loan book in the future. As at the date of publication of this announcement, NAD455 million of approved facilities were made available to the Group by external funders, of these facilities, NAD130 million was drawn upon by reporting date.

Explanatory notes to the interim financial results

After a comprehensive restructure in the Group, the long-term insurer, Trustco Life Limited (a wholly owned subsidiary of the Group) acquired all the shares of subsidiaries with investment property holdings in the Group and furthermore acquired all the shares of Farm Herboth's (Proprietary) Limited, which also included a large holding of investment property (valuation of this land was NAD52.2 million). The Group has further consolidated all its investment-type holdings under the insurance business to support regulatory asset adequacy requirements. Shareholders are advised that the headline earnings of the insurers includes re-measurement of investment properties, the re-measurement of which are largely attributable to policy holders.

Trustco Bank Namibia Limited is in the process of acquiring Trustco Finance (Proprietary) Limited. Once completed, and approved by Bank of Namibia all the Group's lending and banking subsidiaries will be housed in a single division, supported by a robust legal structure falling under the purview of the Bank of Namibia.

As a result of the above and in order to align the presentation of the Group's financial statements to similar financial service enterprises, the Group has chosen to present the statement of financial position on a liquidity basis rather than the traditional current vs non-current basis. Furthermore, the presentation of the Statement of Profit and Loss and Other Comprehensive Income has been presented to more appropriately align with a financial services operation.

The above changes necessitated a revision to the IFRS 8 Operating Segments disclosure to align reporting with internal operational oversight by the Group Executive Committee.

Basis of preparation and presentation

Statement of compliance

The unaudited interim results have been prepared in accordance with the framework concepts and measurement and recognition criteria of International Financial Reporting Standards ("IFRS") and comply with IAS 34 Interim Financial Reporting and are in accordance with the SAICA Financial Reporting Guides as issued by the Financial Reporting Standards Council, the Namibian Companies Act, No 28 of 2004 (as amended) and the Listings Requirements of the JSE Limited and the NSX.

Basis of preparation

The unaudited condensed consolidated financial statements are prepared in thousands of Namibian Dollars ("NAD'000"). The Group's functional and presentation currency is Namibian Dollars. At 30 September 2014, NAD1 was equal to ZAR1.

These interim results are unaudited and have not been reviewed by the auditors. The accounting policies applied are in accordance with IFRS and are consistent with those of the previous annual financial statements.

The preparation of the interim results has been supervised by the Financial Director, Ryan McDougall CA(SA), CA (Namibia).

Dividends

The Directors of Trustco ("the Board") are pleased to announce that a resolution was passed on 5 November 2014 to pay an interim dividend of 3 cents per share for the six months ended 30 September 2014.

The following information is provided to shareholders in respect of dividend tax:

- The dividend has been declared from income reserves;
- Shareholders are advised that Namibian non-resident shareholders' tax ("NRST") of 20% on the declared dividend will be applicable to all shareholders with addresses outside Namibia (unless any specific rules relating to double tax treaties apply);
- The Namibian NRST rate for South African residents is 15% resulting in a net dividend of 2.55 cents per share, therefore no South African Dividend Withholding Tax is applicable; and
- Trustco Group Holdings Limited's Namibian Income Tax Reference Number is 3356338011.

The issued number of shares at declaration date is 772 142 090.

The salient dates for the payment of this dividend are set out below:

Last day to trade cum-dividend Friday, 21 November 2014.

Trading ex-dividend commences Monday, 24 November 2014.

Record date Friday, 28 November 2014.

Payment date Tuesday, 9 December 2014.

Share certificates may not be dematerialised or rematerialised between Monday, 1 December 2014 and Friday, 5 December 2014 both days included. The dividend is declared in Namibia Dollars and payable in the currencies of the Republics of South Africa and Namibia which are pegged at an exchange rate of 1:1.

Acknowledgements

The Board of Directors of Trustco (the "Board") acknowledge with gratitude the efforts and commitment from stakeholders and staff.

Condensed Consolidated Statement of Financial Position

		30 Sep 2014	30 Sep 2013	31 Mar 2014
	Notes	Unaudited NAD'000	Unaudited NAD'000	Audited NAD'000
ASSETS				
Cash and cash equivalents	(48%)	69 019	131 621	131 606
Advances	1 46%	763 719	524 068	699 932
Trade and other receivables	>100%	491 850	212 196	293 626
Current tax assets	>100%	3 693	1 079	4 716
Amounts due by related parties	(100%)	-	8 482	-
Inventories	>100%	341 131	62 956	343 850
Property, plant and equipment	2 8%	204 563	189 220	203 111
Investment property	79%	605 014	337 255	537 330
Intangible assets	(11%)	201 970	227 875	212 391
Deferred tax assets	71%	146 533	85 895	110 774
Total assets	59%	2 827 492	1 780 647	2 537 336
EQUITY AND LIABILITIES				
Liabilities				
Bank overdraft	100%	19 905	-	-
Customer deposits	100%	13 401	-	-
Borrowings	3 65%	778 187	472 777	730 369
Trade and other payables	33%	159 960	120 598	94 983
Current tax liabilities	(72%)	11 511	40 492	5 561
Technical provisions	(10%)	19 771	21 966	20 113
Amounts due to related parties	100%	1 367	-	265
Other liabilities	4 >100%	174 690	3 546	212 449
Deferred tax liabilities	>100%	269 398	31 951	210 721
Policyholders' liability under insurance contracts	88%	45 335	24 166	38 520
Total liabilities	>100%	1 493 525	715 496	1 312 981
Capital and reserves				
Share capital	-	177 595	177 595	177 595
Share premium	-	46 300	46 300	46 300
Put options	100%	-	(52 832)	-
Deemed treasury shares	>(100%)	(69 026)	(1 006)	(69 026)
Shares for vendors	-	14 976	14 976	14 976
Contingency reserve	(35%)	2 983	4 610	2 983
Revaluation reserves	27%	30 857	24 265	30 641
Foreign currency translation reserve	>(100%)	(2 164)	2 635	(2 075)
Distributable reserves	33%	1 132 446	848 608	1 022 961
Total capital and reserves	25%	1 333 967	1 065 151	1 224 355
Total equity and liabilities	59%	2 827 492	1 780 647	2 537 336

Condensed Consolidated Statement of Comprehensive Income

		6 months 30 Sep 2014	6 months 30 Sep 2013	12 months 31 Mar 2014
	change	Unaudited NAD'000	Unaudited NAD'000	Audited NAD'000
Insurance premium revenue	(17%)	96 162	116 269	225 037
Banking interest and similar income	64%	59 635	36 412	88 856
Fee and other income	>100%	341 296	164 983	545 197
Total revenue	56%	497 093	317 664	859 090
Investment income (non-banking)	(65%)	15 922	45 651	123 518
Income from operations	41%	513 015	363 315	982 608
Finance costs (note 6)	>(100%)	(49 747)	(19 439)	(57 095)
Insurance claims and benefits	(12%)	(23 516)	(26 721)	(54 947)
Operating expenses	5%	(260 340)	(248 748)	(570 328)
Profit before taxation	>100%	179 412	68 407	300 238
Taxation	>(100%)	(50 781)	(3 364)	(47 566)
Profit for the period	98%	128 631	65 043	252 672
Other comprehensive income, net of tax				
Items that will not be subsequently reclassified to profit or loss	(96%)	127	3 234	5 409
- Revaluation of property, plant and equipment	(91%)	216	2 468	9 353
Items that may be subsequently reclassified to profit or loss				
- Foreign currency translation adjustment	>(100%)	(89)	766	(3 944)
Total comprehensive income for the period	89%	128 758	68 277	258 081

Condensed Consolidated Statement of Movements in Equity

		6 months 30 Sep 2014	6 months 30 Sep 2013	12 months 31 Mar 2014
	change	Unaudited NAD'000	Unaudited NAD'000	Audited NAD'000
Balance at the beginning of the period	26%	1 224 355	968 130	968 130
Issue of shares	(100%)	-	29 750	29 750
Sale of deemed treasury shares	-	-	-	(16 194)
Deemed treasury shares purchased	100%	-	(1 006)	-
Dividends for the period	(100%)	(19 146)	-	(15 412)
Total comprehensive income for the period	89%	128 758	68 277	258 081
Balance at the end of the period	25%	1 333 967	1 065 151	1 224 355

Condensed Segment Analysis

	TOTAL	BANKING	INSURANCE	INSURANCE	INSURANCE	INSURANCE
	NAD'000	Namibia NAD'000	Total NAD'000	Namibia NAD'000	Rest of Africa NAD'000	Investment Portfolio NAD'000
6 months 30 September 2014						
Revenue	455 761	62 103	393 658	88 574	9 201	295 883
External revenue	537 439	73 900	463 539	89 170	9 284	365 085
Internal revenue	(81 678)	(11 797)	(69 881)	(596)	(83)	(69 202)
Net profit after tax	128 631	34 006	94 625	48 188	(39 564)	86 001
Total assets	2 817 492	831 619	1 985 873	105 407	175 125	1 705 341
Total liabilities	1 483 525	293 200	1 190 325	70 723	21 671	1 097 931
6 months 30 September 2013						
Revenue	325 734	47 676	278 058	113 160	25 229	139 669
External revenue	355 280	47 676	307 604	114 150	25 229	168 225
Internal revenue	(29 546)	-	(29 546)	(990)	-	(28 556)
Net profit after tax	65 043	19 610	45 433	65 600	(35 624)	15 457
Total assets	1 780 647	663 571	1 117 076	89 783	237 144	790 149
Total liabilities	715 496	262 730	452 766	52 463	22 303	378 000
12 months 31 March 2014						
Revenue	892 435	108 640	783 795	223 659	43 787	516 349
External revenue	954 181	121 672	832 509	230 967	43 787	557 755
Internal revenue	(61 746)	(13 032)	(48 714)	(7 308)	-	(41 406)
Net profit after tax	252 672	47 009	205 663	103 120	(134 911)	237 454
Total assets	2 537 336	740 289	1 797 047	122 523	245 691	1 428 833
Total liabilities	1 312 981	282 912	1 030 069	59 787	96 089	874 193

Earnings and Headline Earnings per Share

		6 months 30 Sep 2014	6 months 30 Sep 2013	12 months 31 Mar 2014
	change	Unaudited NAD'000	Unaudited NAD'000	Audited NAD'000
Profit attributable to ordinary shareholders	98%	128 631	65 043	252 672
Adjustments:	(50%)	(20 983)	(42 201)	(111 150)
Loss on disposal of property, plant and equipment	56%	913	585	603
Loss on disposal of intangible assets	-	-	-	1 336
Fair value adjustments on investment properties	(100%)	-	(45 330)	(120 423)
Gain on bargain purchase (note 9)	(100%)	(21 595)	-	(3 000)
Impairment of intangible assets	(100%)	-	3 801	15 241
Tax effect	(76%)	(301)	(1 257)	(4 907)
Headline earnings	>100%	107 648	22 842	141 522
Earnings per share:				
Basic earnings per share	(cents) >100%	18.48	8.59	33.57
Diluted earnings per share	(cents) >100%	18.35	8.53	33.35
Headline earnings per share	(cents) >100%	15.46	3.02	18.80
Diluted headline earnings per share	(cents) >100%	15.35	3.00	18.68
Dividends per share	(cents) 100%	2.75	-	4.15
Shares				
Total number of ordinary shares in issue	-	772 142	772 142	772 142
Weighted number of ordinary shares in issue	(9%)	696 236	757 559	752 771
Contingently issuable shares as a result of business acquisition	-	4 922	4 922	4 922
Weighted number of ordinary shares for diluted earnings per share	(8%)	701 158	762 481	757 693

Condensed Consolidated Statement of Cash Flows

		6 months 30 Sep 2014	6 months 30 Sep 2013	12 months 31 Mar 2014
	change	Unaudited NAD'000	Unaudited NAD'000	Audited NAD'000
Cash flow from operating activities				
Cash generated by operations	(31%)	87 192	126 240	183 508
Interest received	56%	501	321	3 095
Finance costs	>(100%)	(49 747)	(19 439)	(57 095)
Net loans advanced	(56%)	(73 841)	(169 099)	(278 454)
Proceeds from funding liabilities for student advances	100%	50 000	-	240 000
Taxation paid	(5%)	(3 563)	(3 768)	(16 146)
Net cash flow from operating activities	(116%)	10 542	(65 745)	74 908
Net cash flow from investing activities	>100%	2 148	(18 474)	(21 348)
Net cash flow from financing activities	>(100%)	(95 182)	169 480	31 686
Net change in cash and cash equivalents (note 8)	>(100%)	(82 492)	85 261	85 246
Cash and cash equivalents at beginning of period	>100%	131 606	46 360	46 360
Cash and cash equivalents at end of period	(63%)	49 114	131 621	131 606



Notes to the Condensed Financial Statements

	change	6 months 30 Sep 2014 Unaudited NAD'000	6 months 30 Sep 2013 Unaudited NAD'000	12 months 31 Mar 2014 Audited NAD'000
1.1 Advances				
Mortgage loan book	>100%	139 055	31 979	104 465
Student advances	28%	621 150	486 238	591 953
Other loans advanced	(40%)	3 514	5 851	3 514
	46%	763 719	524 068	699 932
1.2 Total loans advanced	45%	794 955	547 587	752 853
Provision for bad debts	(33%)	(31 236)	(23 519)	(52 921)
	46%	763 719	524 068	699 932
Less: Short-term portion	(24%)	(191 963)	(154 702)	(182 499)
	55%	571 756	369 366	517 433

2 Property, plant and equipment

Property, plant and equipment of NAD8.98 million (2013: NAD13.247 million) was acquired, and properties of NAD0.91 million (2013: NAD0.66 million) were disposed of during the current period.

	change	6 months 30 Sep 2014 Unaudited NAD'000	6 months 30 Sep 2013 Unaudited NAD'000	12 months 31 Mar 2014 Audited NAD'000
3 Borrowings				
Borrowings	39%	603 548	433 958	596 670
Current portion of borrowings	>100%	174 639	38 819	133 699
	65%	778 187	472 777	730 369

Approved facilities of NAD300 million were available to the Group as at 30 September 2014. NAD50 million of these facilities were drawn down upon as at the balance sheet date. The new facility is repayable over 5 years at Namibian prime plus 1%.

	change	6 months 30 Sep 2014 Unaudited NAD'000	6 months 30 Sep 2013 Unaudited NAD'000	12 months 31 Mar 2014 Audited NAD'000
4 Other liabilities				
Other liabilities	(100%)	-	1 046	7
Vendors for acquisitions	100%	88 060	-	65 800
Current portion of other liabilities	0%	2 508	2 500	2 838
Current portion of vendors for acquisitions	100%	84 122	-	143 804
	>100%	174 690	3 546	212 449

5 Fair value hierarchy

Level 1

Financial assets

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Level 2

Investment property

79%	605 014	337 255	537 330
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Aircrafts

7%	63 471	59 233	64 096
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Level 3

Technical provisions

10%	(19 771)	(21 966)	(20 113)
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Policyholders' liability under insurance contracts

(88%)	(45 335)	(24 166)	(38 520)
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The valuation techniques and inputs used to develop measurements after above items are consistent with the 2014 Annual Financial Statements.

	change	6 months 30 Sep 2014 Unaudited NAD'000	6 months 30 Sep 2013 Unaudited NAD'000	12 months 31 Mar 2014 Audited NAD'000
6 Finance costs				
Interest paid to depositors and similar	>100%	23 684	6 117	30 483
Finance costs on non-banking portfolio	96%	26 063	13 322	26 612
	>100%	49 747	19 439	57 095

7 Transactions with related parties

Next Investments (Proprietary) Limited

<(100%)	(14 468)	(4 693)	(29 178)
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Northern Namibia Development Company (Proprietary) Limited

>100%	580	191	367
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The above transactions with related parties arise as a result of management fees and surety fees paid to Next Investments (Proprietary) Limited and charter income received from Northern Namibia Development Company, both are subsidiaries in which the Group Managing Director has significant shareholding.

8 Reclassification of 2014 cash flow statement

On the 6th of November 2014, the JSE notified Trustco that as a result of the JSE's pro-active monitoring of annual financial statements it had identified 2 misclassifications on the statement of cash flows as reported in Trustco's 2014 Annual financial statements. These misclassifications, although considered immaterial by Trustco due to the detailed nature of the disclosure in the 2014 Annual financial statements, were deemed by the JSE to be individually and collectively misleading to users of the financial statements, hence the JSE asked that Trustco correct the classification in this set of interim results.

	change	12 months 31 Mar 2014 Restated NAD'000	12 months 31 Mar 2014 Audited NAD'000
Extract of the condensed consolidated statement of cash flows:			
Cash flows from operating activities	41%	74 908	52 975
Cash generated by operations	14%	183 508	161 575
Included in the above restatement is the effect of the increase in policyholders' liabilities under insurance contracts	>100%	21 933	-
Cash flows from investing activities	(76%)	(21 348)	(90 374)
Purchase of Deemed Treasury shares	(100%)	-	(69 026)
Cash flows from financing activities	(74%)	31 686	122 645
Purchase of Deemed Treasury shares	<(100%)	(69 026)	-
Increase in policyholders' under insurance contracts	(100%)	-	21 933
Net change in cash and cash equivalents	-	85 246	85 246

Notes to the Condensed Financial Statements (continued)

9 Business combinations

During the period under review the Group acquired control of the following companies:

Name	Share holding	Date of acquisition
Fides Bank Namibia Limited	100%	01-Sep-14
Farm Herboth's (Proprietary) Limited	100%	30-Jun-14

The acquisition of Fides Bank Namibia Limited, now named Trustco Bank Namibia Limited represents a natural progression of the Group's strategy. The acquisition offers a best fit strategic opportunity to complement the current student lending, mortgage lending, property development and insurance businesses of the Group. The acquisition of Farm Herboth's (Proprietary) Limited with its 2 600 hectares of undeveloped land on the outskirts of Windhoek allows the Group to extend its current land development projects both by size and timeframe.

Gain on bargain purchase of NAD21.60 million was raised on purchase and included in the profit for the period. This gain arose as a result of a combination of recognising deferred tax assets in the entities as well as revaluation of identifiable assets. In both cases the total fair value of the entity exceeded the purchase price.

The following table summarises the consideration paid, at fair value of assets acquired and liabilities assumed at the acquisition date of all entities acquired.

	Book value NAD'000	Fair value adjust NAD'000	Fair value NAD'000
Investment property	47 424	4 800	52 224
Bank and cash	25 319		25 319
Other assets	2 352		2 352
Loan portfolio	10 212		10 212
Property, plant and equipment	2 155		2 155
Funding liabilities	(34 436)		(34 436)
Deferred tax asset	-	16 670	16 670
Other liabilities	(4 040)		(4 040)
Net assets	48 986	21 470	70 456
Purchase consideration			(48 861)
Gain on bargain purchase			21 595
Cash flow on acquisition			
Cash and cash equivalents			25 319
Bank overdraft			-
Net cash acquired			25 319
Consideration paid*			(12 000)
Cash inflow on acquisition, net of net cash acquired			13 319

* A portion of the consideration for the purchase of Farm Herboth's (Proprietary) Limited was deferred. The purchase consideration is payable by the Group in 18 monthly instalments of NAD2,222,222 beginning July 2014. The deferred purchase consideration bears interest at 10.25%.

Acquisition-related costs of NAD525,641 have been charged to administrative expenses in the consolidated income statement for the period ended 31 September 2014.

The revenue from these acquisitions included in the consolidated statement of comprehensive income since acquisition was NAD0.52 million and a net loss of NAD2.42 million was incurred during the same period.

Had the businesses been consolidated from 1 April 2014, the consolidated statement of income would show pro forma revenue of NAD6.83 million and pro forma loss of NAD6.19 million.

Directorate and Administration

Directors:

Executive Directors

Dr Q van Rooyen (Managing Director)
Mr R McDougall (Financial Director)
Mr FJ Abrahams

Non-executive

Adv. R Heathcote SC (Chairman)
Mr WJ Geyser
Mr RJ Taijaard
Mr J Mahlangu

Company Secretary

Ms S Miller

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Facsimile: +264 61 24 85 31
Registration number: 95/505

Transfer Secretaries (South Africa):

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Proprietary Limited
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Registration number: 2004/003647/07
Telephone: +27 11 370 7700
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Auditors:

Namibia

BDO
Registered Accountants and Auditors
Chartered Accountants (Namibia)
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South Africa

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South Africa

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29 Scott Street
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Johannesburg
2090
South Africa
Registration number: 1951/002280/06

Bankers:

Namibia

Bank Windhoek Limited
First National Bank of Namibia Limited
The Standard Bank Namibia Limited

Trustco Group Holdings Limited

Incorporated in the Republic of Namibia
(Registration number: 2003/058)
NSX share code: TUC
JSE share code: TTO
ISIN number: NA000A0R067
("the Company" or "the Group" or "Trustco")

