Conference Call transcript

17 November 2015

TRUSTCO 1H16 RESULTS

Operator
Ladies and gentlemen, good afternoon and welcome to the Trustco 1H16 results conference hosted by BPI Africa. All participants will be in listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you need assistance during the call please signal an operator by pressing star then zero. Please note that this conference is being recorded. At this time I would like to turn the conference over to Pedro Machado. Please go ahead.

Pedro Machado
Good afternoon everyone and thanks for joining us. Thanks to Ryan for his time. As you all know, Trustco recently reported their 1H16 results. HEPS up 38%, profit after tax up 17%, which appears to be fairly pleasing numbers. The share price has performed exceptionally well year to date. So without further ado I will hand over to Ryan and let him talk you through the specifics. Thanks, Ryan.

Ryan McDougall
Thanks, Pedro, and welcome everyone. I'm glad to have you on board. I'm going to try and be as brief and succinct as possible today, just try and highlight the core areas, maybe some of the changes from the financial year. A few shareholders have sent through a couple of questions on some of the numbers that they would like clarification on. So I will give you that. And just towards the end of my discussion on my financials I will give you a brief update on what is happening with the acquisitions process specifically in regard to the mining transaction that was announced a few months ago.

I will kick off by saying that we are quite proud of the results. We have managed to grow the comparative profit. We are looking at getting more stability around the earnings, a slightly more predictable result coming out of the segments. The income statement really has been driven by a large proportion of our investment holdings in the past. And a large portion of that comes out of the property portfolio and I know this has been the target of some people's concern in terms of what focus we are placing on the property portfolio versus the rest of the business. But I think if you look at the numbers you will see that we are slowly starting to grow the rest of the business in terms of an equal footing for the property portfolio so that it doesn't play predominantly off one sphere or segment.

And to that end we are looking at growing the banking segment quite significantly in the future. It is probably going to take a bit longer than some of our history in terms of growth, but that is how the banking environment is. We are targeting a few new insurance products in South Africa and in Namibia, in the short-term space as well as the life space. I obviously can't divulge any details on what those products are, but just to look at competing with our competitors in other areas where traditionally we weren't competing.

As a result of some of the new products that we have been slowly introducing to the market the insurance premium numbers have grown. Someone highlighted that whilst the insurance premium numbers have grown there hasn't been a significant growth in terms of the claims against those insurance premiums. And again that is part of the reason why the profits have been so good in that segment, but it is not a controllable thing that we are looking at. We have been quite fortuitous in the past to be operating products that are potentially a one claim or two claim type product. We are not looking at people claiming fairly regularly on these short-term products. And again low margins on these products tend to lean towards things like funeral insurance and medical insurance where you don't expect to have a lot of claims coming out of that.

Having said that, another thing in terms of the insurance business that has happened in the last year has been the closing down of some of the branches in South Africa. It is not that we have lost that business. It is just that it is a sales channel that has now been shut. There were 55 branches where we were selling these insurance products. We had a re-look at the model. The board and management decided that it wasn't an efficient model, that the cost benefit just wasn't there. So we are moving back towards telesales and a brokerage-type sales operation where the new sales of the product is driven really by manpower rather than brick and mortar operations.

As a result of that there is a R40 million reduction in costs to the income statement relative to last year. So really a large proportion of that growth in terms of revenue has risen out of that cost saving that was exacerbated out of that change in the South African business.

We are still seeing some fairly serious price pressures as well as obviously the pressure that comes out of the rising interest rate on our leverage book. There has been an increase both in terms of the amount of debt that we hold but also in terms of the cost of said debt. We are looking at lowering that cost of funding through the banking model, through taking on a blend of retail and wholesale deposits, and then augmenting that with our term lending efforts. So in the future we should see a slight improvement in terms of that expense ratio and interest versus the debt obligations that we have.

Loans and advances on the banking side have grown quite significantly in the past two to three years. A lot of that has been funding that has come from development funders and people who see the social benefits of our portfolio that we do have. About 75% of that portfolio remains student loans. Those student loans are backed fully by courses where people register for our tertiary institute, the Institute for Open Learning. We are looking to dilute that portfolio and augment that with mortgage lending and SME portfolios that come directly out of the bank. In future we are targeting a one third, one third, one third approach. Obviously we see mortgages that have a long life span but are relatively low yielding versus SMEs and student loans which is a much shorter life span but much higher yielding and also slightly risky as well. But the blend of that should increase our NIR margin and hopefully bulk up the balance sheet and the leverage play quite nicely in the future.

The last thing I want to say about the income statement is that you will notice the tax rate has declined slightly. A lot of that has come out of the South African assessed losses that are being recognised, the deferred tax assets raised in South Africa. So we are utilising it for the tax benefit out of that. I don't think that that is going to be the norm in the future. I think it is kind of a once-off, or perhaps in the 2016 year you might see a slight decrease in the tax rate relating to those assessed losses being recognised. And certainly in the future we should return to a more normalised tax percentage.

Property sales revenue is slightly lower than previous years, and that is not a function of the demand but rather in terms of our supply. We look to supply a slightly smaller phase of residential sales into the market this year relative to the same period last year. The industrial and commercial land that went on sale at the end of the last financial year, again we put that through a lot of agents and the take-up of that has been rather slow. But again we are only releasing a certain number of properties into that market as we see the market demand on that side. Really the market demand for properties in Windhoek and the rest of our locations seems to be driven primarily by the residential market rather than the commercial and industrial land. Commercial and industrial land is obviously more expensive, but the residential property is a lot more valuable in terms of market demand at the moment.

Moving on to the next point in terms of the acquisition that was announced during these interim results, which was the Watermeyer Mining and Construction Company, it is effectively a construction company that focusses on what we call bulk servicing, so putting in the roads, electricity cables, piping and things like that onto our plots of land. The reason we acquired that is we see significant benefit in terms of cost as well as time to market if we do that bulk servicing in-house. Having said that, we aren't able to do all the bulk servicing on all our properties simultaneously in-house. We do have to outsource some of that. So whilst there is a final reduction or cost saving in terms of bulk servicing we won't really see the true benefit of that for the next 18 months whilst the other contractors continue to work on our land both at Elisenheim and Lafrenz, which is located in and around Windhoek.

The banking portfolio, we have started with the banking type business. We now run the bank out of three branches in Namibia, two in the north and one locally in Windhoek. The update in terms of number of people opening electronic bank accounts and looking to make loan applications has been fairly successful. I won't have any numbers to announce now, but in December at year end there will be a bit more colour to that. Again we have been pretty reticent about the quality of clients that we are taking on, at least initially. We are looking to service predominantly first-time mortgage users rather than investment holders, and also middle and medium/lower middle segments rather than the wealthy and upper LSMs. That portfolio we really think will reach maturity at the end of 2016 calendar year or at the end of 2017 financial year. So we are expecting a bit of slow growth coming out of the bank, but so far so good. The popularity of the brand seems to be important. People are approaching the bank, making those loan applications, so we should see some real traction happening there in the next 12 to 18 months.

One thing to note in the financials is the sale of the treasury shares was completed in this half year. Those treasury shares were acquired in 2014. That was about 10% of the equity that the group held for an extended period of time. That was sold back into the market around July, and the group made a significant cash profit on that, although it is obviously not reflected in the financials. So it is important to note we don't have any more treasury shares. The full float is in the market. And as we have seen it has helped in terms of picking up liquidity in the market, and our daily average that is being traded has almost tripled in the last year.

One last point about the loan balances is that as a result of blending the mortgages into this historic student loan portfolio and creating a fully blended portfolio the non-performing loans have reduced quite significantly, down to below 4% as at 31st September, which was around 5% at year end. So we are quite happy with the quality of loans that we are bringing onto the book.

Lastly in terms of the balance sheet is our investment property holding. Our investment property holding should actually been seen together with the inventory balance, because a lot of the properties that we are currently developing but are not yet sold reside in the inventory account. A large proportion of Elisenheim and Lafrenz now live in that inventory account. So combined with the properties in the inventories is just north of R1 billion worth of holdings. Those are at fair value. However they are at an undeveloped fair value and we see the revenue coming out of that book will be significantly higher than the carrying value of those properties at the moment. And we are also seeing that timeline in terms of liquidating that property portfolio has now been extended with the acquisition of Elisenheim by about another five to ten years. So we see the significant amount of revenue coming out of property sales at least for the next ten to 15 years in our conservative estimate.

I did mention the expenses in the business, the operating cost, has grown slightly if you exclude the once-off items around about 7%, which is slightly higher than our expectation which was at 5% based on the Namibian inflation. A lot of that is driven by the fact that we have now included some of the Watermeyer Construction expenses in there rather than through a cost of sales line. So there is a slightly different blend of how the numbers are reported as well.

Last year we had the N$20 million gain on bargain purchase coming out of the acquisition of the property holding company. This year there are no such once-off items and I think as you can see the net profit for the period and the headline earnings remain a pretty robust measure in our minds as the headline earnings as governed by the SAICA standard, and we are quite happy to see that paralleling our supporting numbers.

All right. I think that is it from me from my side in terms of the numbers and what has been reported. I'm happy to answer more questions on those numbers. I just want to quickly touch on what happened with the mining transaction before we get into that. The mining transaction remains incomplete in as far as Huso and NNDC as well as Morse Investments are still waiting for two critical conditions precedent in that agreement. And those conditions are the mining license of NNDC and the export processing zone license for the diamond cutting and polishing factory. Both of those are fairly critical in terms of the acquisition because they do obviously provide a huge uptick in the value once your mining license is issued.

We don't see any reason why the license wouldn't be issued. It is just a matter of time and a bit of government red tape that needs to be done.

When the mine does come on board and it is fully consolidated into Trustco we don't expect it to instantaneously make tens of millions of profit. We do expect there to be a slight ramp up, albeit that there is a large inventory base of diamonds that sits in the portfolio, so that can be liquidated immediately. But what has happened is that during this time while we were waiting for the diamond license some of the plant and machinery that wasn't fully on line in the acquisition phase has now been perfected and now been installed. So we should be able to reach the target numbers that we spoke about in the circular pretty soon.

Now, another reason that we've had a few nervous comments in the press about this diamond mine is I guess mining is not the flavour of the month in South Africa. But certainly here in Namibia there is a vastly different attitude towards diamond mining. The mine itself is fairly industrialised. It doesn't involve a huge staff complement. It is in a fairly remote area, so your incidents of strikes and crime are fairly low there. And having said that, one of the most profitable companies in Namibia in the last 15 years is Namdeb, which is an alluvial diamond mining operation which is a joint venture between the government and De Beers. So it is a lucrative business in Namibia. It is a fairly benign environment to operate a mine.

We do see that it will be cash generative in the near future. It won't require any additional investment from the group in order to start generating those cash proceeds. And we hope to reinvest those cash proceeds that come out of the mine into the rest of the group where historically the return on equity has really been good. And the leverage play coming out of a cash generative unit into our financial services should really leverage the whole group up quite nicely. And I think it is important to note that the board of directors has scrutinised this deal quite carefully and made sure it is not earnings dilutive. If anything the profits will see a significant ramp-up from having this investment on the portfolio. That's it from my side. I guess, Pedro, I will throw it back to you.

Investor 1
Good afternoon and thanks for making yourself available. If I can just touch on the diamond acquisition, the deposit has around 350,000 carats in the inferred carat category at the moment. I'm wondering how you're going to get from there to production at the rate that you're targeting, and why you are confident of reaching those financial targets as laid out, given that the existing production using the plant that is in place is only a fraction of what would be required to reach those targets.

Ryan McDougall
Thanks. I'm glad you asked that. One, I think I mentioned that we have recently installed a slightly larger plant that should be able to handle a 3,000 carats per month output from the mine. I don't have the figures in front of me, but it is a huge amount of gravel that needs to go through the plant. With the new crusher and the new dense medium separator the capacity will be there. They are acquiring a few more trucks at the moment, but that is already pre-financed and it will just be a cost of income on that side. So the run of mine and the ability to actually mine the resource is really the bottleneck at the moment.

We are pretty confident that the geologist's report in terms of the competent person's report has given a fairly prudent picture to the market. And the reason for that is the way that they have conducted the EPL and the sampling methodology has been a fairly shotgun approach. They have taken a random group of samples across the EPL area and then aggregated that to get to your grade which we have reported. Correct me if I'm wrong, I think it was 3.99 per 100 tonnes of gravel. We first of all feel that that is being skewed by some areas which we don't think are as rich as the other areas. On aggregate if we focus on mining the diamond-rich areas that have been processed we think the grade will be higher and it will be slightly more efficient.

And then the second thing is that the areas that have been demarcated as the EPL zone and have been sampled is only a fraction of the actual area that we will then be given an exclusive license to once the mining license is put in place. And if you refer to the contract, the contract talks about a 1.5 million carat resource which will then result in a further uplift in terms of the payment. But there is a fairly big gap getting from the 350,000 carats to the 1.5 million carats. And so it leaves quite a big leeway for saying that if we think the resource is anywhere below 1.5 million carats there is not going to be any further payment in terms of the resource to the Van Rooyen family and we will stick with the numbers we've got. It looks like based on the 350,000 carat resource we will still make fairly good profit. A 1.5 million resource, profits will be fantastic for the group and for its shareholders as well.

Investor 1
It is an inferred resource that you have, and going through the competent person's report, even estimating that inferred resource has been fairly difficult because the grade variability is very high and there is a lack of continuity between sample points. There are also issues estimating the density of the material. So firstly you are starting with an inferred resource which is a lower category resource. It is very unusual if not unheard of for somebody to base a mining plan on an inferred resource because typically there is not enough information to actually do a technical and economic evaluation. There are issues with estimating the resource. The confidence that you have in that resource is low enough that I would be surprised that you have a mining plan and are confident of achieving those targets. It would seem to me there is still a great deal of work that has to be done to take you to an indicated category or to give yourself reserves. It's difficult for me to understand the valuation that has been put on it given all the uncertainties. How do you have confidence that the resource is there, that is could grow, and any mining or economic plan based on an inferred resource where there have been difficulties in even estimating that is realistic?

Ryan McDougall
I guess what you are saying is echoing some of the sentiments that came out of the minorities who did eventually vote for this transaction. Some of the conversations around the deal transacting and shaping the deal specifically spoke to those points. Yes, you are right, the inferred resource is a difficult thing to judge the future capabilities of the mine on because you would expect a lot more mining to have been done. Having said that, what happened with the shape of the deal is a lot of it has been placed on the mine to produce the actual results. So there is an upfront payment in terms of the resource.

We all feel from the sampling and things that have been done there, and our feedback from our mining experts, that we do think it is prudent. We do think it is valid. So we are happy to issue those shares to the Van Rooyen family. However, if the profits don't come out of it and it does prove that there are shallow gravels or that there is major inconsistency between the gravel areas, or in fact the mining is much more difficult than we expect it to be, then I don't expect the EBITDA numbers to be anywhere near what we are projecting in terms of the circular.

And I think then what you will find in the next three years is if all those negative aspects do come out there will certainly be placed before the board a very serious discussion whether to exercise the minority's option to reverse the transaction. I think there is enough resource there based on what has been happening recently, based on the sampling methodology, based on a more targeted approach in the last few months that it does seem that that inferred resource will be a proven resource in the near future. Whether or not the resource is as big as what we have seen in other alluvial diamond mines in Botswana and in the south that remains to be seen. Again that is why the full purchase price is only issuable on a contingent basis and we do have a part of the purchase price that is based on this earn out basis.

But the most important thing for me as FD of the rest of the group is I'm sure that there is no cannibalisation of my financial resources into this mine. Whilst there has been time and effort spent in terms of the circular and acquiring the mine, the mine needs very little assistance from the Trustco group in order to become profitable. As you right said, it is a matter of ensuring that there are sufficient diamonds in the mine, that we do have the capacity to mine that. And I think if you tick those few boxes then it will be a good investment for the group and cash generative. But the reticence that you have expressed now is a sentiment that seems to be in the press and seems to be among some of the minority shareholders. All I can say is the way that the deal is shaped hopefully we turn an opportunity to the miners to prove that the resource is there, and that there is this kind of parachute that we can exit the deal with in the next three years if we don't feel that is right.

Investor 1

Okay. But there is an upfront payment as well. Even if you take that inferred resource of 350,000 and you take the value per carat of $175 per carat, the fact that that valuation was done by a related party is perhaps not the sort of corporate governance you would like to see in a deal this size. Even if you assume those two numbers are correct you come to an in situ value for that resource of $61 million. Now, operating costs associated in extracting those, if you compare the margin of miners such as Petra and Gem etc. around 15% margin would be a good result. This could give you then a value once extracted of around $10 million which is R140 million. Now, the gap between R140 million and the total purchase consideration, obviously the gap between that $10 million and the upfront payment is very large. Against a backdrop of what is happening in the mining sector, also particularly in the diamond sector, it is a gap that I can't see you bridging.

Ryan McDougall
On that, there are slight differences between ourselves and our competitors in the alluvial diamond industry. That 15% margin that you spoke of in Petra is certainly not applicable to NNDC.

Investor 1
You have a negative margin at the moment.

Ryan McDougall
It won't be that margin when it is operating. And the second thing is that we will beneficiate most of those diamonds. So you are looking at a rough diamond extraction there versus an end to end vertical integration, which is one of the core benefits here. And as I spoke about earlier, there is an obvious tax benefit from cutting the diamonds here that the government gives you inferred subsidies in terms of the tax relief by beneficiating and cutting and polishing your own diamonds. So it is slightly different metrics that you are dealing with. I'm happy to detail a few more of those once the mining license is in place and talk a little bit about comparability between and Petra and NNDC, and the different operating environment, and the different grade and quality and things like that in the two mines.

One of the most important things is that it is an independent geologist who has done this. He is not a staff member. A fair and reasonable test has been passed. The JSE's mining reading panel has scrutinised the CPR quite carefully and quite closely. So we are fairly confident that it is a good deal for Trustco. As I said, regardless of the amount of shares or the value that you ascribe to it, we have looked quite clearly at assuring that this is not earnings dilutive. And to me that proves that our margins and our return in terms of profitability won't have a drag and won't be earnings dilutive.

Investor 1
Okay. And could I ask two quick questions on the rest of the business then? Just in terms of property sales, the receivables there, I guess that number is around R760 million at your most recent results. In my understanding how the property works is that you are selling and providing finance at the same time. So your receivables on the balance sheet are growing raptly as your property sales increase obviously. I'm just intrigued by why you finance all of those sales yourselves rather than have this done by third parties. Why don't the acquirers just go to a bank and obtain bank financing at similar rates and even lower rates than what you would offer to purchase those properties?

Ryan McDougall
Just to let you understand exactly how the transaction works, because the purchasers buy undeveloped land it is not a strict sale of real estate. It is almost like a construction contract. We recognise that revenue evenly over the period until that finished product is transferred to the end user. We measure that revenue as a percentage of completion method. The bulk of it comes in the first couple of months and then there is a protracted end in terms of approvals in terms of municipality and handing over that fully-developed property to the end user. So we are not financing that trade and other receivables. That is merely just a measure

of grossing up in terms of the revenue recognition standard. We are obviously targeting providing end user mortgages to these people. But it is not going to be an end user mortgage for the purchase of the land.

We will also finance the end users to build their own houses on that property as well and be a true residential mortgage rather than a land mortgage, the reason being that that's a fantastic growth area for Namibia. About one third to 40% of all new loans in Namibia in the last five to ten years have come out of the residential mortgage sector. The other big banks are heavily overweight in terms of mortgages in terms of their portfolios, so we think there is a nice sweet spot in terms of the market in terms of growth there on that side. And what you will see is that receivable balance will slowly over time hit a sustainable level as property gets sold, transferred, moved to other banks in terms of their mortgages that they may place on these lands, or move to high advances line in the future. I think the significant ramp-up in terms of the receivables is a short term thing. It will hit that level fairly soon and then you will see the receivables balance stay at a fairly static level where these transfers in and out of mortgages and redemptions with other banks' mortgages may occur. It is certainly not a target to keep all of these mortgages for ourselves, but to look to grow our banking portfolio along a first-time homeowners' mortgage type portfolio.

Investor 1
So what is the revenue that you actually book from the sale of property? It doesn't have associated cash flow. What is that revenue and how come you can recognise it?

Ryan McDougall
You can imagine it is like a building contract. Someone has contracted with us to build something on a piece of vacant earth. For all intents and purposes they own legal title to that, but that only gets transferred at the deeds office at the end. But if they were to then execute their right to own a vacant piece of land they could do so right now. We are able to transfer out of those vacant lands as it stands. But they have got a contract with us to say they would like a serviced plot. So to execute on that contract you have to wait until the servicing is done and the municipality has agreed to that. That portion that I'm talking about there, adding the bulk servicing, needs to be recognised as a phase of completion method just like you would build a top structure on a house. A builder would transact with someone to build them a house. He would recognise the value of land as the revenue now and recognise the value of the house or the building price of the house over a straight line period or a percentage of completion model.

Investor 1
So what percentage then has actually been built on and transferred and what was recognised as revenue actually converts into a cash flow for Trustco?

Ryan McDougall
I think it is about 60/40. 60% of the value of the transaction is the land. And 40% is the improvement on the land.

Investor 1
Okay. It is obviously becoming a huge part of your balance sheet now. And your increases in the value of the land as well are fairly significant. I appreciate that the property market in Namibia has been very strong. It strikes me that the increases in your property portfolio have been above the rate of property price increases in Namibia as a whole. What makes the land that you are selling able to achieve those sorts of increases?

Ryan McDougall
There are two things to that. We have effectively realised most of the fair value gains on two of our core properties. The one is a commercial industrial estate and the other is this large residential estate. Now, the large

residential estate is a unique one because residential property is in very scarce supply in Namibia. New residential property is almost unheard of in Windhoek, the reason being that there have been fairly serious water and electricity restrictions to people looking to have plot zones, where as our holding of Elisenheim has already got that approval that was given to them three or four years ago. Effectively 95% of residential urban sales in and around Windhoek have been from Elisenheim. So you can imagine that there is a huge concentration there of anti-competitive behaviour because no one else really has the ability to disperse as much land as we've got in our books at the moment. A lot of people are flocking towards that, and that is obviously pushing the price up further than what we expected it to be.

The second thing is the industrial land is a unique scenario, one that we didn't anticipate. A few years ago the municipality discovered that there is a very low-lying water table in the southern part of town which they call an aquifer. That aquifer can be easily contaminated by heavy industrial in the southern part of town. They have issued a moratorium on all new heavy industrial in the south, and in fact they have also started identifying a few industries that have warehouses and factories in the south and asked them to move to the northern part of town. Now, what has happened in the northern part of town is there hasn't been much zoning, and here we sit with a very large piece of land that has been zoned for industrial use, and heavy industrial use at that. So we are seeing quite a few of those industries move towards our Lafrenz zoning. It makes it more attractive and slightly an outlier in terms of the rest of the market. But that certainly wasn't planned. This is a bit of a windfall going on.

Investor 1
What is the current value of Lafrenz on your balance sheet?

Ryan McDougall
I am going to have to go back to my books and have a look at that. There are obviously some rental properties and commercial properties in there. I would just be taking a wild stab in the dark if I told you.

Investor 1
I think it was acquired in 2004 for N$4 million or N$5 million. I think it is probably being carried now in the books at over N$500 million, which over a ten year period is an astonishing growth against the backdrop of the Namibian property price increases, which have been strong but nowhere near that strong.

Ryan McDougall
I've got in my mind N$400 million. It was bought for R1 per square meter and then we had an opportunity to apply for this commercial industrial zoning/residential zoning on the land. With that zoning it went from R1 per square meter within a year or two. And then since 2009 to now that has grown from about R600 per square metre. And the current market price for industrial price is now R2,000 per square metre. Even in the last five years you can see it has more than tripled in value as well, just in terms of the market rather than actually the approvals that we got.

Investor 1
A final question from me. I'm sure there are other people who would like to ask. The other thing that strikes me is that there is a very large difference between the income statement taxes paid and then the cash taxes paid at Trustco. Why such a large discrepancy?

Ryan McDougall
A lot of that tax number comes out of a deferred tax debit. So a lot of the allowances in terms of new plants especially coming out of the Watermeyer transaction in terms of the PPE that we have acquired for some of

other subsidiaries and things. As I said you will see a bit more colour on that in terms of the year-end results. But a large number of that has been deferred so that is where the discrepancy comes in terms of the actual cash paid and the expense number on the income statement.

Investor 1
Thank you very much once again.

Investor 2
Hi Ryan. How are you doing?

Ryan McDougall
Good thanks. How are you?

Investor 2
Can you hear me? You said that South Africa contributed to a saving of R40 million, right?

Ryan McDougall
Yes.

Investor 2
Now, does that mean then that the profit growth for the period majority came from this R40 million saving?

Investor 2
The profit growth for the period, the 38% in the headline earnings, came majority from the savings of the R40 million from South Africa.

Ryan McDougall
Yes and no. it has definitely been one of the largest contributors. The growth in the insurance premiums has been very good. The fact that we have been able to extract savings in terms of the tax number has helped. But at the same time the larger than expected increase in operating expenses and finance costs has obviously dragged that down a bit. But certainly a large proportion of this improvement in profitability has come out of the savings that we've been able to extract from South Africa. But what we are really hoping for is the lean model that we are running in South Africa doesn't stunt the growth of the revenues in South Africa. Not only are we seeing a big tick up in terms of the savings but we are also expecting the revenue growth to start appreciating as the sales channels are a little bit more effective as well in South Africa.

Investor 2
Okay. And your Namibian insurance business earned 48 million last year for the period. What did it earn this year?

Ryan McDougall
I have to carve out what the South African numbers are, but I can tell you the South Africans still made a small loss for this interim.

Investor 2
Okay. So basically the Namibian business grew profits in line with revenue or slower than revenue?

Ryan McDougall
No, it did grow a little bit slower than revenue, some of that also due to our provisioning in terms of the life book as well.

Investor 2
Okay. And secondly, your investment revenue of 328 million, how much of that is attributable to your property sales?

Ryan McDougall

I wrote that down here somewhere. Sorry, I'm just scratching through my notes here. I had it here. I think it is 80%.

Investor 2
80% hey.

Ryan McDougall
Yes.

Investor 2
And for the full year are you expecting to sell more property than last year or would it be less property sales this year versus last year?

Ryan McDougall
We are looking to do another phase of residential sales. We are expecting a little bit of a tick up in terms of the commercial properties. Whether it is more or less than last year will be driven by market demand. I can tell you that we obviously target growth in all those areas. Some of it can come out of price appreciation; others can come out of the amount of land that we make available. But we have to see how the market takes up the supply.

Investor 2
But obviously when you say the market taking up the supply you are pointing towards the commercial side.

Ryan McDougall
Yes but we also don't want to oversell in terms of the residential. We have done a bit of case studies in terms of residential estates in South Africa. We looked at a few residential estates in Johannesburg around Centurion and in the Western Cape. And one of the problems that they experienced was there was significant popularity in terms of the first two phases of those estates, and the popularity wanes quite fast when you reach the latter phases. We are cognisant of that and we want to make sure that we've got something that is sustainable. Even if there isn't phenomenal growth we can make sure that we can continue with that sustainable growth in the five to eight years in the future whilst we start targeting growth in the loan book. So I can't give away too much information here, but we are being fairly prudent about where we want to go and make sure that this business is sustainable and not one of these estates that falls flat in year four.

Investor 2
Okay, that makes sense. And your bank, what is the level of deposits now currently with Trustco Bank?

Ryan McDougall
That is a number we are not disclosing yet. You will be able to see that at the year end.

Investor 2
Okay. Last year you had it separated in the balance sheet and now you have grouped it with your overdraft.

Ryan McDougall
I think part of the reason is because the deposits that came out of Fides Bank conformed to a number of different criteria that we conform our deposits to. So our deposit tends to be blended as a portfolio with our wholesale and our retail deposits, whereas this is just a pure retail book. So we are having a look at how best to disclose that in order to make sure that people find that there is enough comparability in the numbers.

Investor 2
Okay. Cool. Those are all my questions. Thanks Ryan.

Investor 3
Ryan, how are you doing?

Ryan McDougall
Good thank you.

Investor 3
A couple of questions. You mentioned your pilot project in Brazil. What happened to that?

Ryan McDougall
What happened in Brazil was that we rolled out the pilot project in one of the regions. In our mind it was as successful as our free life products in terms of any other area that we've rolled out. We have benchmarked a 20% growth in terms of the client revenues as a success factor. When the client came back with their data they felt that we had fallen short of that 20%. And they had a few suggestions in terms of product design to get the number back up to that 20%. And then we didn't really think that those product designs were quite fit for the market at that moment. We went into protracted discussions about how best to roll that out in the future. I think they then came back to us and said the powers that be in terms of that telecom that we rolled out the market with are still unconvinced and they are going to look at doing an opt-in prepaid insurance rather than a premium model.

As it stands now there is a contract in final negotiation with two or three other telco's in the region. But having seen the results that came out of Brazil and having seen the people's reluctance to log onto a premium model, at least from an executive point of view we are not entirely sure that that's the market we are going to be targeting at the moment. The discussion around the boardroom table at Trustco is wait and see. If there is a product offered to us again that comes out of Brazil or somewhere in the South American region we would seriously consider it, but for now that has been mothballed at the moment and for now we will target growth in Namibia.

Investor 3
Well, thank you for that.

Operator
Thank you. There are no further questions. I'm going to hand the call back over to Pedro Machado. Please go ahead, Pedro.

Pedro Machado
Ryan, thanks again for your time. We had quite a comprehensive list of questions there, and thank you for everyone who dialled in and participated. That's all for today, Ryan, thanks again and have a good day all. Goodbye.

Operator
Thank you. On behalf of Trustco and BPI Africa that concludes today's call. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT