GCR GLOBAL CREDIT RATING CO.
Local Expertise • Global Presence

Trustco Group Holdings Limited

Namibia Financial Institution Analysis **July 2015**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long-term	National	BBB(NA)	Positive	July 2016
Short-term	National	A2(NA)		

Financial data:

(USDm comparative)

	31/03/14	31/03/15
NAD/USD (avg.)	10.11	11.06
NAD/USD (close)	10.58	12.09
Total assets	239.8	261.3
Total capital	115.7	128.2
Borrowings	69.0	87.7
Net advances	66.2	66.7
Liquid assets	12.4	9.8
Operating income	73.0	76.2
Profit after tax	25.0	27.4
Market cap. *	ZAR3.86bn/USD313m	
Market share	n.a.	

* Valuation on 14 July 2015 (NAD/USD 12.32).

Rating history:

Initial rating (July 2012)
Long-term: BBB-(NA)
Short-term: A3(NA)
Rating outlook: Stable

Last rating (July 2014)
Long-term: BBB-(NA)
Short-term: A3(NA)
Rating outlook: Stable

Related methodologies/research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2015

Trustco rating reports (2012-14)

GCR contacts:

Primary Analyst
Omega Collocott
Sector Head: Financial Institution Ratings
omegac@globalratings.net

Committee Chairperson
Jennifer Mwerenga
Senior Credit Analyst
jennifer@globalratings.net

Analyst location: Johannesburg, ZA
Tel: +27 11 784 – 1771
Website: http://globalratings.net

Summary rating rationale

- The ratings of Trustco Group Holdings Limited ("Trustco" or "the group") reflect its entrenched financial services position (in education finance and mass-market insurance), and value-adding property investments. Sound capital and leverage metrics relative to its evolving risk profile/business mix also support the ratings.
- The rating/s outlook considers Trustco's increasing operational scale, improved organisational efficiency, and long-term earnings diversification plans, coupled with supportive macroeconomic and property price trajectories in Namibia. Furthermore, strategic planning of the property sales pipeline has begun to enhance the quantum/sustainability of income from investments.
- While Trustco's capitalisation ratio remained stable at 49%, rising leverage since the beginning of F14 reflects the increased use of debt to fund interest-bearing asset growth. In F15, net new funding of NAD330m was applied towards 15.3% growth in net advances (to NAD807m), property additions, and financing of pre-transfer land sales (c.NAD503m). Total assets grew 27.7% to NAD3,159m at FYE15, driven by a 50:50 debt:equity contribution.
- High earnings retention (F15: NAD297m), supportive dividend policies, diversified funding partners, including Development Finance Institutions ("DFIs"), and more sustainable cash flows, underscore the group's increased debt capacity. However, higher debt levels and interest rates pushed up the after-tax cost of debt from 6.4% in F14 to 7.1% in F15, and gross interest cover fell from 13.9x (F14) to a still-comfortable 9.0x in F15.
- Credit quality in the student loan book (77% of gross advances) declined. The (fully provided) impairment ratio rose from 3.5% (FYE14) to 5.6% (FYE15) as loan growth slowed, but overall impairment rates were stable as legacy exposures were written off.
- Trustco posted 20% net income growth to NAD303m in F15. Earnings from Namibian insurance, finance and investments easily absorbed the losses from South African insurance, and banking. The investment segment contributed NAD266m. Return on assets and equity declined marginally to 10.8% and 21.9% respectively in F15 (F14: 12.6%, 23.1%).
- Constructive Namibian macroeconomic trends, structural support for property prices and a strategy which is geared towards enhancing the sustainability and diversification of earnings, while prioritising stakeholder needs, support strong group prospects.

Factors that could trigger a rating action may include

Positive change: Increased earnings diversification and operational efficiency, stability in segmental revenue streams, and the maintenance of conservatism in capitalisation/leverage metrics.

Negative change: The ratings will be impacted by negative trends in asset quality, profitability/earnings stability, and/or leverage (beyond sustainable levels), combined with adverse macroeconomic developments in key markets.

GLOBAL CREDIT RATING CO.

Organisational profile

Business overview[1]

Trustco has traditionally operated in Namibia and selected emerging markets, with its key focus on the financial services and property sectors. In recent years, the group has intensified its focus on Namibian opportunities, significantly expanding its financial services offering, partly facilitated by the purchase of Fides Bank (renamed Trustco Bank Namibia Limited ("Trustco Bank")) in 2014. The group has continued to add value through land purchases and sales, and identified resources as a strategic priority.

Trustco (incorporated in Namibia) has a primary Johannesburg Stock Exchange ("JSE") listing and a secondary listing on the Namibian Stock Exchange ("NSX"). The group's two main operating segments are 'Insurance and Investments', and 'Banking and Finance', each of which reports sub segments.

Table 1: Sub segment and description	
Insurance	<u>Namibia</u> Mass-market insurance offering (legal, medical, dread disease, income protection, funeral and life cover, amongst others), through Trustco Life and Trustco Insurance. <u>Emerging Markets</u> Short-term mass-market insurance products using technology-enabled mobile platforms.
Investments	<u>Property development</u> Identification, purchase, servicing and sale of land for residential, commercial or industrial development (in Namibia) through Trustco Property Holdings. <u>Education</u> Distance-learning courses offered via the Institute for Open Learning ("IOL"). <u>Other</u> Air charter and media services.
Banking and Finance	<u>Banking</u> Trustco Bank is intended to support the deposit-taking and lending activities of the group. Activities are still in a nascent stage. <u>Finance</u> Student loans to finance courses provided by IOL, through Trustco Finance. Mortgage loans to finance the sale of properties, provide developer finance and (imminently) residential mortgages (Trustco Capital/Trustco Bank).
Shared services	Information technology, human resources, marketing, fleet management, risk/compliance and internal audit services are centrally managed and relevant costs allocated to business sub segments.

During F15, with the exception of Insurance, the group's focus was primarily domestic. The South African operations were streamlined, and divestures, acquisitions, and restructuring transactions took place to re-shape the group in line with the current strategic vision. The most significant of these were:

- Purchase of 2,776 hectares of land on the outskirts of Windhoek (Farm "Herboths") for a consideration of NAD57m;
- The sale of 582 plots in the Elisenheim development for a consideration of NAD503m;
- Purchase and rebranding of Trustco Bank;
- Closure of the South African insurance distribution network purchased in F14, necessitating the retrenchment of staff; and
- Reorganisation of the group's internal corporate structure in order to facilitate alignment with business segmentation.

A new group strategy includes investing in resources. In this regard, by 15 July 2015, shareholders had cast sufficient irrevocable votes in favour of acquiring a diamond mine and cutting factory from the group's controlling shareholder. As such, the acquisition is expected to conclude on 30 September 2015.

Ownership structure

With the exception of Quinton van Rooyen (Trustco's founder/controlling shareholder), and treasury shares, shareholder composition is relatively diversified. Table 2 summarises the group's effective beneficial shareholding structure at 31 March 2015.

Table 2: Shareholding composition	%
Q van Rooyen (founding director)	50.8
US Mutual Fund holdings (combined, various custodians)	13.9
Trustco Life Limited*	7.8
IFC/World Bank (through Citibank NA)	4.6
South African asset management holdings (combined)	5.0
Other investors (all < 3% holdings)	17.9
Held by public investors	39.5
Held as treasury shares, and by directors and staff	60.5

* Treasury shares.
Source: Trustco.

Management is not aware of intended changes to the shareholding/control structure, except to the extent that it may be affected by treasury share sales.

Governance

Table 3 summarises the composition of the board of directors ("board") and group adherence to selected aspects of King III. The board has indicated that Trustco materially complies with King III principles, JSE and NSX listing requirements, and other relevant regulatory provisions.

Table 3: Corporate governance summary	
Number of directors	7
-Independent non-executives	4 (at least 1/3 retire annually, and may be re-elected)
-Executives	3
Separation of the chairman	Yes
Frequency of Board meetings	Quarterly. 4 meetings held in F15.
Board committees	Audit and Risk Committee ("ARC") at group level and for Trustco Life, Bank and Insurance; Remuneration and Nominations Committee ("Remco"). All members are non-executive.
External auditors, rotation policy	BDO. Appointed annually, with 5-year partner rotation.
Internal control and compliance	Yes, reports to group/subsidiary ARC.

Source: Trustco.

[1] For a detailed breakdown of the group, refer to previous rating reports.

Corporate governance enhancements during the review period include the approval of an Anti-Money Laundering Policy, and increased senior management engagement with the board (following a board self-assessment during F15). Post year-end, compliance was bolstered by the appointment of a head of legal, separate from the company secretary. Unrelated to this, the group's company secretary resigned.

The group's varied operational jurisdictions/financial services attract regulation from several oversight bodies, including the JSE and NSX. Namibian non-bank financial services (microfinance and insurance) are regulated by the Namibian Financial Institutions Supervisory Authority ("Namfisa"). Trustco Bank is regulated by the Bank of Namibia ("BoN"). In South Africa, the Financial Services Board is Trustco's primary operational regulator.

Control structure

Trustco's group structure is designed to balance the requirements of effective executive management/ strategic execution and its owner-managed status, with the governance and oversight requirements of its listed status. Note that the managing director/CEO, who heads the executive committee ("EXCO") and is significantly involved in business leadership, is also the group's majority shareholder. The board (supported by its sub-committees and compliance) interfaces with EXCO, which executes strategy and functionally oversees the business' operations. EXCO receives input from the business segment heads.

The group has illustrated its ability to act decisively in the face of market opportunities (in particular to purchase land or businesses), to integrate acquisitions into the existing corporate framework, and identify synergies between core businesses. In addition, the group's development considers multiple stakeholder requirements. For example, the financial inclusion-focused education/student loan business has attracted funding from several DFIs, while small business loans and mass-market insurance are aligned with the Namibian development agenda.

Apart from the resignation of the previous managing director of Trustco Bank (for whom a replacement is being sought), there have been no significant changes to the control structure of the group.

Human resources and staffing

Trustco's owner-managed business has shown stable management, preserving institutional knowledge. Team members have extensive experience in their respective insurance, investment and finance fields, supporting high levels of management competence/ flexibility. The staff complement declined (FYE15: 614 vs. FYE14: 844), as a result of normal attrition, as well as the closure of 53 insurance sales outlets in South Africa, that lead to a reduction of 290 staff. The Namibian staff complement increased by 52 during F15. The group's staff complement is considered adequate to support its current operational scale and development goals. Management and staff (across all levels) have average industry experience exceeding 14 years, and the average Trustco experience of management exceeds five years.

Reporting structure and access to information

The group's accounts are prepared in accordance with International Financial Reporting Standards and the annual/interim financial reports are sufficiently detailed, transparent and timely. BDO issued an unqualified audit opinion on the group's financial statements for the period under review. Investor communications covering corporate developments, performance, risk, and other relevant matters are disseminated through the group's integrated annual report, conference calls, website and circulars, as well as stock exchanges' news services.

Operating environment

Trustco's target markets for its student/small business loans and insurance products are typically lower-income customers. As such, consumer confidence, employment rates, and indebtedness levels, as well as competitive considerations, impact potential business growth. The prospects of the group's significant investment in Namibian property/development (and its nascent property-backed lending business), are also significantly linked to Namibia's economic vitality, as well as to property price trends in selected regions. A brief discussion of the key external factors affecting the group's main areas of operation follows.

Macroeconomic environment (Namibia)

Annual real gross domestic product ("GDP") growth was 5.3% (estimated) in 2014 (5.1% in 2013), mainly driven by robust construction activities, and sustained growth in diamond mining, wholesale and retail trade, and transport activities. Increased public investment in infrastructure has had the dual effect of driving GDP growth, and widening the current account deficit. The uranium mining and livestock farming sectors showed softer performances in 2014.

Annual average inflation fell to 5.4% (2014) from 5.6% (2013), mainly as a result of slower growth in housing rentals, and the prices of utilities and fuel. Swift credit expansion necessitated monetary tightening, which resulted in a 50 basis point ("bps") increase in interest rates during 2014.

Continued weakness in the Namibian Dollar (which is pegged to the South African Rand), improved the external price competitiveness of Namibia's export commodities in the international market, although weakness in key trading partners (in particular in emerging markets) and low commodities prices has led to softer demand for Namibian exports.

Other economic/financial sector indicators including double-digit private sector credit extension growth (mainly mortgages), higher private sector savings rates and undented private consumption, point to continued consumer and corporate health. Low and stable non-performing loan ("NPL") levels and higher banking sector liquidity indicate that these gains have not come at the cost of higher risk.

Macroeconomic environment (South Africa)

South Africa's 2014 real GDP growth fell below expectations, moderating to 1.5% (2013: 2.2%). This was in part due to widespread/prolonged industrial/ strike action in 1H 2014, which constrained GDP growth through its negative affect on mining/ manufacturing productivity, spending patterns in the lower living standards measure ("LSM") population groups, and the general outlook on labour relations.

The weak Rand, combined with administered cost price hikes, increased inflationary pressures. In response, the South African Reserve Bank ("SARB") raised interest rates by 75bps in 2014. In 2014, the official inflation rate averaged 6.1%, exceeding the SARB's 3-6% target range, and contracting slightly in the first months of 2015.

Consumer spending and household income growth showed a slight upward trend in 2014, but remained at low levels, and declined significantly relative to the previous reading, due to income constraints during the strikes, persistent high unemployment levels, and lacklustre consumer confidence. Multiple factors which continue to weigh on South Africa's economic growth prospects will continue to place downward pressure on disposable incomes. In this regard, businesses which are reliant on a share of the lower-income wallet are seeing slow growth and credit providers are experiencing higher bad debt levels.

Property market overview (Namibia)

Namibia's healthy macroeconomic trends, enhanced by government infrastructure spending, continue to stimulate activity in the country's coastal, northern and central regions, bolstering demand for residential and commercial/industrial property. However, long-standing property supply restrictions prevail, due to cumbersome zoning/development approval processes.

Based on FNB House Price Index data and related commentary (to March 2015), in 2014 house prices continued to increase at a faster pace than the long term trend over the past seven years. However, deceleration in property prices has been noted in some months, and in 1Q F15. That said, as housing supply and land delivery remain weak, housing demand in the short to medium term is expected to support prices. House price growth of ±15% was recorded in 2014 on the back of above average economic growth, robust consumer demand and stronger mining exports, boosting household incomes. As such, supply-demand imbalances, combined with ongoing economic development, appear to be supportive of property prices, although affordability considerations and the potential for negative economic trends in African and global economies pose some risks to real estate prices.

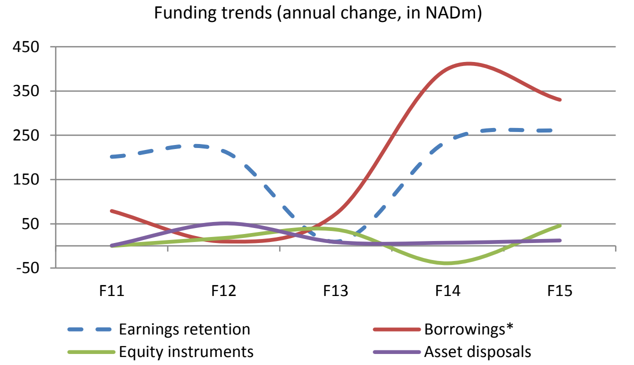
Financial profile

Likelihood of support

The group has access to shareholder support, mainly in the form of a dividend policy/reinvestment ethos, which considers the expansion objectives and capital requirements of the business.

Funding composition

Traditionally, the group has funded business growth through earnings retention, and net property sales. While in F15 retained earnings continued to make a significant contribution (NAD262m) to the group's overall funding base, property sales were broadly cash neutral, as a result of payments for land purchases being deferred, and Trustco providing mortgage finance in respect of its property sales. However, as the following chart illustrates, starting in F14, growth (particularly of the lending operations) has increasingly been debt-funded.



* Interest-bearing, excluding the effects of overdrafts and a vendor acquisition loan, of which NAD124m was repaid in F15 (NAD210m granted in F14).

The total funding increase in F15 of NAD636m (F14: NAD606m) comprised mainly net equity increases (retained earning plus movements in treasury shares) of NAD308m (F14: NAD198m) and NAD315m (F14: NAD400m) in net new debt raised.

In this regard, DFIs represent the majority of the group's funding providers, and include the International Finance Corporation ("IFC"), the German and French development finance agencies (DEG and PROPARCO), Norfund, and the African Development Bank. Trustco's provision of secured funding (student loans) and a product offering which supports financial inclusion, are aligned with selected DFI mandates/agendas.

In F14, NAD400m in net debt was raised through a private placement of ZAR300m (IFC and Norfund) under the group's ZAR1bn Domestic Medium Term Note ("DMTN") Programme, and a mortgage loan partially funding the Elisenheim property purchase.

In F15, NAD330m in net debt raised (excluding the effects of changes in vendor acquisition finance) represented an increase of c.NAD200m in term loan funding, mainly from interbank term loans and DEG (NAD70m), as well as increases in mortgage loans, instalment sales, and the overdraft drawdown.

Table 4 sets out Trustco's liability funding sources.

Table 4: Funding base (by term and type)	F14		F15	
	NADm	%	NADm	%
Short-term funding	**277.5**	**29.5**	**233.9**	**20.4**
Overdraft	*-*	*-*	*15.0*	*1.3*
Current portion, long-term†	*133.6*	*14.2*	*133.0*	*11.6*
Vendor acquisition loan	*143.7*	*15.3*	*85.4*	*7.4*
Other loans	*0.2*	*<0.1*	*0.5*	*<0.1*
Long-term funding	**662.5**	**70.5**	**912.7**	**79.6**
Term loans and other†	*304.9*	*32.4*	*618.2*	*53.9*
Vendor acquisition loan	*65.8*	*7.0*	*-*	*-*
Debt securities in issue	*291.8*	*31.1*	*294.5*	*25.7*
Total	**940.0**	**100.0**	**1,146.6**	**100.0**

† Secured to varying degrees by sureties and share pledges from the controlling shareholder, and cession of the Student Advances book held in Trustco Finance.
Source: Trustco.

Secured term/other loans (comprising mainly loans from DFIs, mortgages and instalment sale finance) have risen 71.3% to NAD751.2m (FYE14: NAD438.5m), increasing from 46.6% to 65.5% of overall liability funding at FYE15. This excludes the impact of the vendor acquisition loan of NAD85.4m (FYE14: NAD209.5m) that was granted by the sellers of the Elisenheim property development in December 2014, was partially settled at FYE15, and was fully settled in July 2015.

Capital adequacy and leverage

In F14 and F15, retained earnings made a significant contribution to financing business growth, and also provided a base against which additional debt could be raised. Given the owner-managed nature of the business, Trustco has typically used its dividend policy/growth as tools to retain capital at comfortable levels. The group seeks to a strong capital base so as to promote investor, creditor and market confidence, and sustain future business development.

The group's capital/assets ratio has remained stable in F14/F15 at around 49%, and is ample given the level of risk to which the business is exposed, as well as selected debt covenants in place.

Table 5: Capitalisation	F14	F15
	NADm	NADm
Total reported capital	**1,246.9**	**1,543.9**
Paid up common shares	*223.9*	*223.9*
Eligible reserves	*1,023.0*	*1320.0*
Add: Net capital instruments	31.5	48.3
Total primary capital	**1,278.4**	**1,592.2**
Less: Net capital instruments	(54.0)	(42.0)
Total available capital	**1,224.4**	**1,550.2**
Total balance sheet assets	**2,474.5**	**3,159.1**
Selected ratios (%):		
Total capital: Total assets†	49.5	49.1
Annual dividend pay-out rate	6.1	13.5
Total borrowings: Total capital	59.7	68.4
Net borrowings: Total capital	48.9	60.8

† Minimum level of 25% required under DFI/IFC funding agreements.
Source: Trustco.

Trustco's debt requirements are most directly linked to its finance operations, although property purchases also require financing from time to time. Following the increase in debt funding levels beginning in F14, the group's relative leverage has continued to rise, with total and net debt to capital ratios increasing to 68.4% and 60.8% at FYE15 (FYE14: 59.7% and 48.9%) respectively. It is noted, however, that the absolute value of increases in debt and equity during F15 were broadly the same. Consequently, leverage remains manageable both in terms of risk and cash flows. Debt/EBITDA rose marginally in F15 from 2.0x to 2.1x, while gross interest cover fell from 13.9x (F14) to a still-comfortable 9.0x in F15. However, operating cash flow as a proportion of interest-bearing debt rose to 15.9% (F14: 10.3%, negative in F13), underscoring the group's increased debt capacity, as well as its increasing use of the balance sheet as a generator of interest-based earnings.

Given the business profile, Trustco's capitalisation and leverage metrics remain relatively conservative, but the large property component on the balance sheet implies that restraint is warranted. Trustco was in compliance with statutory requirements/covenants (for the group and regulated subsidiaries) in F15.

Outlook

As Trustco expands its banking/lending operations, capital adequacy should moderate and leverage rise as a consequence of using the group's balance sheet to earn interest income. GCR notes, however, that non-financial services (mainly property and start-up) assets have different cash flow, risk and acceptable leverage profiles from lending operations, and as such group capitalisation would be expected to exceed that of a pure financial services provider.

Other considerations

Funding cost – Trustco's funding costs increased 84.8% to NAD105.5m in F15 as a result of increased use of term loan funding and overdraft facilities, and translated into a rise in estimated unadjusted weighted average cost of capital from 14.1% in F14 to 17.5% in F15. Raising deposit funding through Trustco Bank has the potential to moderate funding costs somewhat going forward, but is a longer-term consideration given the nascent stage of banking operations.

Covenants – In this regard, an historical leverage covenant, which had become restrictive in the context of Trustco's expanding banking/finance operations, has been re-negotiated such that the leverage capacity covenant (group tangible net asset value to liabilities) cannot exceed 1.5x. At FYE15, this ratio was 1.16x (FYE14: 1.1x), and is expected to remain at acceptable levels through a combination of retention policies and the management of net debt growth.

Encumbrances – Substantially all of the group's assets are encumbered. Investment properties, inventories and the student loan book have all been pledged in favour of secured loans. The controlling shareholder had also pledged shares and given sureties to the value of NAD812.4m at FYE15.

Strategic outlook and risk management

During F15, the group refined its strategy to focus on growing existing business segments in emerging markets through new products and corporate acquisitions, and to create synergistic relationships across the group. Tactically, the implementation of the strategy includes:

- Banking and finance – capitalising Trustco Bank, and scaling up financial inclusion-focussed and mortgage offerings, with the aim of returning the bank to profitability;
- Insurance – enhancing Namibian insurance penetration while maintaining the client/product focus, and bedding down the short-term insurance offering in South Africa;
- Investment – continuing to deliver regular/ predictable property-related income through sales of Elisenheim and LaFrenz erven; and
- Organisational – aligning business activities and corporate structures to increase the group's efficiency and integration.

Risk management

Trustco's enterprise risk management framework sets out the processes in place for risk identification, assessment/measurement, monitoring and review, and reporting. The risk management duties of executive management, internal audit, the compliance function and ARC, are clearly defined. Risk management embodies all categories of risk faced by the group and contemplates the board's responsibility for the system of internal controls, as well as independent control standard review and monitoring by internal audit (which is independent and reports to ARC).

Compliance with relevant laws, regulations, and the expanding number of regulatory bodies to which Trustco businesses report, is constantly monitored and reported upon to the board and ARC. Based on a continuous risk assessment process undertaken by the group during F15, credit risk, liquidity risk, market (in particular property price) risk, reputational risk and operational risk are considered to be the most significant risks to which the group is exposed. The group's regulatory risk is increasing, as a result of the broadening role of regulators in line with global trends, as well as Trustco' expansion into additional regulated activities (such as banking). The group's insurance risk relates to its long term and short-term insurance operations, and includes capital adequacy, and solvency, underwriting and financial risks. The risk management policies in place, as well as resolution of all matters arising from the most recent onsite inspection of Trustco Life by Namfisa, provide comfort on the adequacy of the management of insurance risks.

Operational profile

In F15, net advances plus investment property (including real estate inventories) totalled 58% of Trustco's group balance sheet (FYE14: 62%). At FYE15, receivables increased by almost 1.5x, largely as a result of NAD501.5m (FYE14: NAD150.9m) in property receivables relating to sales of Elisenheim erven, which are awaiting servicing and transfer. Liquid asset balances declined slightly to NAD118.7m (FYE14: NAD131.6m), but remained at acceptable levels.

Table 6: Asset breakdown	F14		F15	
	NADm	%	NADm	%
Cash and equivalents	131.6	5.2	118.7	3.8
Net advances	700.0	27.6	807.0	25.5
Investment property†	873.4	34.4	1,024.9	32.4
Fixed and intangible assets	415.5	16.4	466.9	14.8
Receivables	230.8	11.6	574.4	18.2
Other assets	123.2	4.8	167.2	5.3
Total B/S assets	**2,474.5**	**100.0**	**3,159.1**	**100.0**

† Includes NAD 316.1m (F14: NAD331.6m) related to residential property stock purchased in the Elisenheim transaction.
Source: Trustco.

The section which follows provides commentary on the group's main balance sheet risks, as well as segmental balance sheet and profit considerations.

Balance sheet risk focus

Market risk

The risk of lower property prices could have a negative margin impact on sales of Trustco's property portfolio, which is focussed in central (Windhoek) and northern Namibia. However, recent buoyant property prices and macroeconomic trends, combined with structural serviced land shortages in key Namibian nodes, points to a high probability of stable or upward property price momentum in the short to medium term.

Credit risk

Table 7 highlights that balance sheet credit exposure increased from 42.9% to 47.5% of total assets, with property sale-related receivables increasing as a component of credit exposure, while student loan growth slowed.

Table 7: Credit risk exposure	F14		F15	
	NADm	%	NADm	%
Loans and placements	**831.6**	**33.6**	**925.7**	**29.3**
Net customer loans†	*700.0*	*28.3*	*807.0*	*25.5*
Bank loans/deposits	*131.6*	*5.3*	*118.7*	*3.8*
Other receivables*	**230.2**	**9.3**	**574.4**	**18.2**
Property sales	*150.9*	*6.1*	*501.5*	*15.9*
Trade and other	*79.3*	*3.2*	*72.90*	*2.3*
Total B/S assets	**2,474.5**	**42.9**	**3,159.1**	**47.5**

† Net of impairments of NAD38.2m (FYE14: NAD39.2m).
* Including NAD30.8m (FYE14: NAD75.4m), which was more than 6 months past due but not impaired at FYE15.
Source: Trustco.

The loan book comprises student loans, property finance and some group lending/SME loans through Trustco Bank. Overall, loans showed stable credit quality, with impairments relative to gross loans constant at 5.6% at FYE14 and FYE15. However, this is a function of the write-off of legacy loans, coupled with increased impairment levels within the student loan book. The quality of individual credit books (where significant) is discussed in the segmental reviews which follow.

Receivables' contribution to aggregate credit risk has increased substantially during F15, from 9.3% of total assets at FYE14 to 18.2% (FYE15), and relates primarily to properties sold, where transfer has not yet taken place (in F15, mainly the sale of Elisenheim erven). Overdue balances are a modest 2.1% (FYE14: 7.1%) of receivables at FYE15.

Liquidity risk

The group maintains a conservative liquidity profile. Business units manage cashflows on a stand-alone basis (to instil discipline) with excess cash being managed within a shared treasury function. The group maintains a 4-5 month planned expenditure liquidity balance in order to ensure that liabilities can be settled as they become due, and also has undrawn facilities of NAD80m and EUR7.5m available from DFIs.

Net liquid assets fell from 5.2% to 3.8% of balance sheet assets during F15. Based on contractual maturities, the group's financial assets and liabilities yielded a net positive cumulative liquidity profile in all disclosed maturity buckets, in no small part due to the high proportion of long term DFI funding in the liability base. GCR notes, however, that the portfolio of investment property would be difficult to liquidate in a short time, resulting in some residual risk.

Operational segment focus

Trustco re-aligned its segmental reporting in F14, and followed up with restructuring of the group in F15 to align its reporting and legal holding structures. In this regard, the Banking and Finance segment includes Trustco Bank, and the student and mortgage loan businesses. The Insurance and Investments segment is divided into sub-segments for Insurance (Namibian and Emerging markets operations) and Investments (in Property, Education and others). A Central Services segment provides support functions to the group, but its assets, liabilities and profits are fully allocated to operating sub segments.

Table 8 sets out segmental asset allocation, while Table 9 illustrates segmental profit.

Table 8: Segmental asset mix	F14		F15	
	NADm	%	NADm	%
Insurance	**368.2**	**14.9**	**422.6**	**13.4**
Namibia	*122.5*	*5.0*	*132.0*	*4.2*
Emerging Markets	*245.7*	*9.9*	*290.6*	*9.2*
Investments	**1,366.0**	**55.2**	**1,214.6**	**38.4**
Banking and Finance	**740.3**	**29.9**	**1,521.9**	**48.2**
Total B/S assets	**2,474.5**	**100.0**	**3,159.1**	**100.0**

Source: Trustco.

The Namibian operations continue to dominate group results, representing 90.8% of group assets and almost 99% of external revenue in F15. In F14 and F15, Namibian operations were profitable, whereas the emerging market insurance sub segment was loss-making, mainly as a result of slower than expected policy sales, and costs associated with the closure of the South African branch infrastructure.

Table 9: Segmental profit*	F14		F15	
	NADm	%†	NADm	%†
Insurance	**(31.8)**	**(8.2)**	**(15.8)**	**(3.8)**
Namibia	*103.1*	*26.6*	*87.6*	*21.6*
Emerging Markets	*(134.9)*	*(34.8)*	*(103.4)*	*(25.4)*
Investments	**237.5**	**61.3**	**266.2**	**65.5**
Banking and Finance	**47.0**	**12.1**	**52.5**	**12.9**
Total profit	**252.7**	**100.0**	**302.9**	**100.0**

* After adjustments for inter-segment allocations.
† Calculated as a percentage of profit-making businesses only.
Source: Trustco.

Given the disparate activities, size, revenue/profit drivers and performance of the group's business segments, a segment-level analysis follows.

Insurance

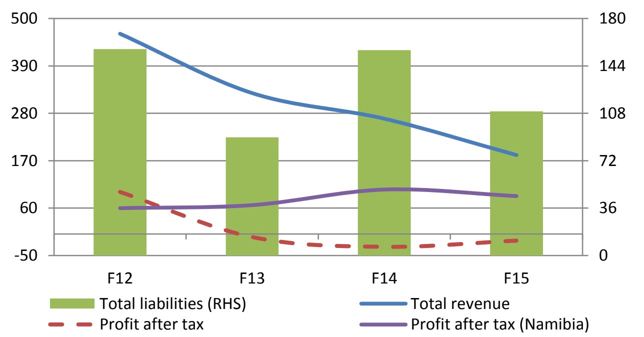
This segment includes insurance business in Namibia and emerging markets (mainly South Africa).

Product category	Description, legal entity
Namibia	
Short-term insurance	Legal, medical and salary protection cover (through Trustco Insurance).
Funeral-related insurance	Funeral cost, transport cost, and family support cover (through Trustco Life).
Term life	'Yambu' branded, with health risk-linked premium (through Trustco Life).
'Free' life insurance	Life cover which expires if not renewed through retail spend (through Trustco Life and Trustco Mobile).
South Africa	
Short-term insurance	'Yambu'-branded legal/funeral cover (via New Adventure Insurance Brokers).
'Free' life insurance	Life cover which expires after a period.

The Namibian insurance offering is aimed at lower income earners, and is distributed through Trustco's branch network and mobile units. Credit life is sold as a component of student finance. Trustco insures at least 300,000 Namibians, and has the largest market share by number of policies (mostly in low-premium products). Short-duration 'free' life cover, a loyalty programme-based product with distributors paying a 'premium' to Trustco based on customers' airtime /retail spend, promotes client acquisition.

The 'Yambu'-branded legal and funeral products are being rolled out in South Africa. However, the branch distribution model was discontinued in F15, after policy take-up was much slower than anticipated. 'Free' life cover linked to the purchase of airtime is also taking time to gain customer acceptance.

Insurance performance (NADm)



Trustco's insurance assets reduced in relative terms from 14.9% (FYE14) to 13.4% (FYE15) of group assets in F15, and required a lower level of absolute funding relative to the prior year. Overall, Insurance continued to post segment losses (F15: NAD16m vs, NAD31m in F14), as a result of lower earnings in Namibia coupled with continued losses in the South African operations.

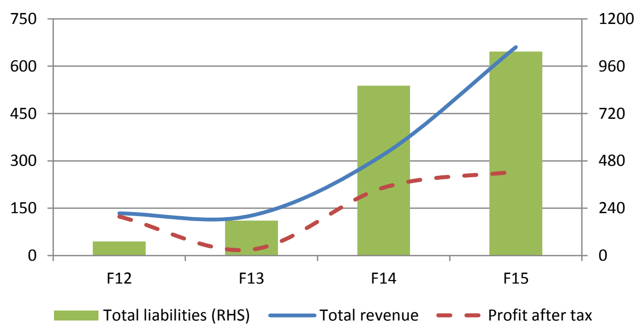
In F15, the Namibian insurance performance was negatively impacted by policy consolidation within its client base, and slower credit insurance sales on the back of modest student loan origination. Consequently, Namibian insurance posted a segment profit of NAD88m (F14: NAD103m), partly offsetting emerging market losses (F15: NAD103m and F14: NAD135m).

Prospects – The group is the leading mass-market insurer in Namibia. Its product range has broad appeal, while opportunities for cross-selling remain. Strong insurance product sales are expected to continue, while higher student loan sales planned for F16 should boost credit insurance revenues. South African insurance is not yet at break-even, but policy growth is encouraging and alternative distribution models are being explored.

Investments

In F15, Trustco combined reporting of non-financial services businesses with the Investments segment (which includes property, education, and tourism, etc). Investment assets and revenues are primarily sourced from the property sub segment.

Investments performance (NADm)



During F15, Investment segment assets declined from NAD1,366m to NAD1,215m, mainly as a result of sales of erven in the Elisenheim development (which resulted in property balances converting to "receivables" held within the Banking and Finance segment). This was partially offset by acquisitions and fair value adjustments totaling NAD163.2m. In contrast to the declining asset balance, funding requirements increased as the group purchased Farm "Herboths" for NAD57m. The allocation of group resources towards property purchases resulted in slower student loan and credit insurance sales. Investments contributed a segment profit of NAD266m (F14: NAD238m), which was a higher 65.5% of total profit (F14: 61.3%), given the somewhat muted insurance performance.

Property – Trustco's long-term strategy in the property development business has been to purchase undeveloped land in/around Windhoek, and other key nodes. The group divides the land into development phases, and sells serviced land when market demand supports sales. Salient features of the group's properties/strategies are set out below.

Property	Strategy and salient details
Elisenheim (Residential/commercial)	Current strategy: Investment property and serviced land sales. 558 hectares (investment property) and 628 hectares (residential development). 57.4 hectares (582 plots) sold in F15 for NAD503m.
La Frenz (office, retail, industrial)	Current strategy: Investment property and serviced land sales. Phase 2 & 3 (116 industrial plots) available for sale.
Ondangwa (Residential/business/light industrial)	Current strategy: Property development. 42 hectares. A portion is being developed as residential units for sale by Trustco.
Herboths (Residential/commercial/ industrial)	Current strategy: Investment property. 2,776 hectares.

In F15, the group sold stands in its Elisenheim and La Frenz developments, and is planning a residential property development (pilot) in Ondangwa. In addition to these land sales, Trustco purchased the Farm "Herboths" in Windhoek municipality valued at NAD60m, and fair value adjustments of NAD103.2m were recognised.

The investment property portfolio also serves as collateral in respect of secured funding arrangements.

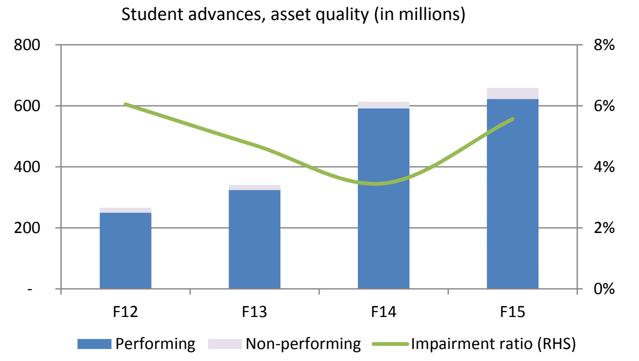
Prospects – A persistent demand-supply imbalance in quality residential land in and around Windhoek and other Namibian nodes has driven median house prices up by around 15% in 2014, exceeding the seven-year trend. However, leading analysts have observed softer property demand growth in recent quarters, as housing affordability is becoming strained.

Trustco purchased much of its land at low cost, and optimises margins by selling serviced land to developers, timed to fulfil latent demand for land in a particular format. In F15, the blended sale price/sqm was NAD1,800, with acquisition/servicing costs significantly lower. Given Trustco's significant land holdings and measured 'development for sale' approach, the property unit's prospects for high-margin returns over a sustained period are good, even in an environment of stagnant property price growth.

Investments – Education
This sub segment, through IOL, provides distance learning courses and materials to over 31,800 active students, through Trustco's seven Namibian regional offices (and one mobile office). IOL provides accredited educational and vocational courses, including to the teaching profession and police force.

Banking and Finance
This segment includes student and property finance, and the activities of Trustco Bank. Finance assets doubled in size to NAD1,522m/48% of group assets in F15 (FYE14: NAD 740m/29%), contributing 13% (F14: 12%) of group profit. Student loans comprise NAD630m or 40% of segment assets, with the remainder being mainly property loans (NAD125m) and receivables (NAD502m), cash (NAD119m), and Trustco Bank assets.

Student loans are used to finance education courses offered by IOL (the Education business within the Investments segment). These loans are classed as microloans (<NAD50,000, term <60 months), and are offered through Trustco Finance, which is Namfisa-regulated and primarily DFI-funded. Growth in student loans slowed, mainly as a result of funding constraints (excess group cash was allocated to property investments). At FYE15, the impairment ratio rose to 5.6% (FYE14: 3.5%), with all impaired loans fully provided for. Credit risk is considered adequate, as the portfolio is granular and diversified, 80% of loan repayments (70% government, 10% private enterprise) are made by payroll deduction, and impaired loans are fully provided against.



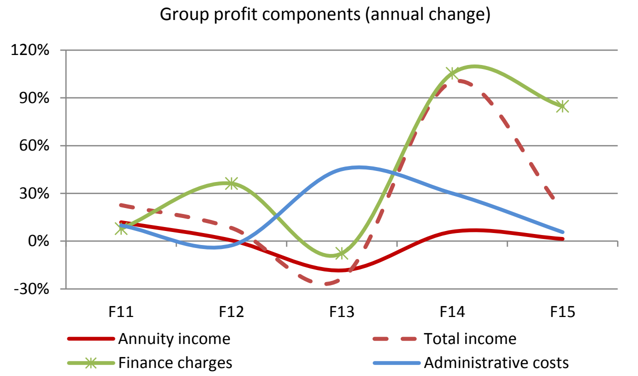
Property advances (property (pre-transfer) and development loans) are provided through Trustco Capital, and facilitate sales of Trustco properties. This portfolio increased to NAD125m (FYE14: NAD105m), with no loans being impaired.

The bank, into which the group has injected NAD47m in capital to date, currently has a modest loan portfolio comprising group lending and SME loans. Medium-term plans for the bank include attracting deposits/term funding, taking on selected property loans, and offering residential mortgages as the Elisenheim property transfers begin to take place.

Prospects – Per management student lending is already gaining momentum in F16, driven by funding availability and an enhanced course offering by IOL. Trustco sees the ability to provide mortgage finance to end-purchasers of its property developments as an opportunity to vertically integrate, creating synergies between the various business segments. Trustco Bank offers opportunities to raise cheaper deposit funding, and expand its loan product offering within the group's broader financial inclusion mandate.

Financial performance and prospects

A five-year financial synopsis is shown at the back of this report, supplemented by commentary (covering the group's consolidated results) below.



Trustco's F15 net income rose 20% to NAD303.2m, driven by:

- Stable levels of annuity income (representing a 27% decline in insurance premium revenue, relatively flat contributions from student finance and education/tuition fees, and higher levels of other income) of NAD547.8m;
- 42% revenue growth from land sales (NAD502.1m) and fair value adjustments (NAD 103.3m);
- Administrative cost growth of 6% in F15 relative to 19% growth in total income, as more streamlined central services functions aided cost containment (the cost/income ratio fell from 49.3% (F14) to 42.6% (F15)); and
- An 85% increase in finance charges to NAD105.5m (F14: 57.1m), reflecting continued debt-funded growth of the balance sheet.

Trustco's return on assets and equity declined slightly to 10.8% and 21.9% respectively in F15 (F14: 23.1%, 10.8%), but represent acceptable returns to shareholders, and high asset-based returns for an asset-focussed financial services and property business.

In F15, Trustco's operations and results supported the group's long-term focus and business diversification rationale. In particular, the property development pipeline set up in F13/F14 is generating sustainable revenues in line with earnings stabilisation goals. Student lending/education and insurance continue to contribute meaningfully to the bottom line, while diverse revenue streams enable the group to support (loss-making) developing businesses (emerging markets insurance and Trustco Bank, in F15), and make new investments in property and potentially resources.

GCR notes that increased debt levels have increased financial risk, but conservative covenants and strong cash flow mitigates these risks to a significant extent.

Trustco Group Holdings Limited

(Namibian Dollars in millions except as noted)

For the year ended: 31 March

Income Statement	**2011**	**2012**	**2013***	**2014***	**2015**
Insurance premium revenue	111.5	126.3	150.7	225.1	180.7
Broker commissions and fees	263.1	309.2	174.6	24.9	0.0
Microfinance income (interest and fees)	39.2	44.5	56.3	100.7	119.2
Education (tuition fees and related)	52.0	70.0	85.3	144.6	136.1
Investment income	29.3	24.5	3.8	3.1	6.4
Other	127.2	50.7	39.4	41.8	105.4
Total annuity type income	622.3	625.2	510.1	540.2	547.8
Realised Fair value gains/(losses)	59.1	117.3	101.1	306.3	502.1
Unrealised Fair value gains/(losses)	63.5	97.1	26.3	120.4	103.3
Total income	**744.9**	**839.6**	**637.5**	**966.9**	**1,153.2**
Cost of sales	(265.1)	(320.3)	(240.2)	(172.0)	(204.6)
Total income (excl. cost of sales)	**479.8**	**519.3**	**397.3**	**794.9**	**948.6**
Administrative expenses	(208.3)	(202.7)	(294.2)	(382.5)	(404.1)
Insurance benefits and claims	(21.4)	(18.9)	(26.7)	(33.1)	(36.3)
Transfer to policyholder liabilities	(3.4)	(2.4)	(5.9)	(21.9)	(6.3)
Change in unearned premium provision	(0.6)	(0.5)	1.0	-	-
Finance charges	(22.1)	(30.1)	(27.8)	(57.1)	(105.5)
Profit before tax	**224.0**	**264.7**	**43.7**	**300.3**	**396.4**
Taxation charge	(12.4)	(25.0)	(4.3)	(47.6)	(93.2)
Attributable earnings	**211.6**	**239.7**	**39.4**	**252.7**	**303.2**
Dividends paid	(10.2)	(25.8)	(29.9)	(15.4)	(40.8)
Retained earnings	**201.4**	**213.9**	**9.5**	**237.3**	**262.4**
Cash Flow Statement					
Cash generated by operations	**185.4**	**178.1**	**96.9**	**343.1**	**448.1**
Working Capital (increase)/decrease	(169.3)	(79.0)	(76.3)	(159.6)	(276.9)
Net loans advanced	(29.4)	(42.2)	(87.4)	(278.4)	(98.3)
Proceeds from funding for Educational advances	-	-	-	240.0	220.0
Net interest/dividends received	29.3	24.5	3.8	3.1	6.4
Finance costs	(22.1)	(30.1)	(27.8)	(57.1)	(105.5)
Taxation paid	(5.5)	(12.8)	(13.6)	(16.1)	(25.0)
Net cash flow from operations	**(11.6)**	**38.5**	**(104.4)**	**75.0**	**168.8**
Dividends paid - Ordinary shares	(10.2)	(25.8)	(29.9)	(15.4)	(40.8)
Net cash retained	**(21.8)**	**12.7**	**(134.3)**	**59.6**	**128.0**
Net investment (cost)/proceeds	**(76.3)**	**8.9**	**(28.2)**	**(21.4)**	**(8.0)**
Acquisitions/Additions to assets	(77.2)	(42.0)	(36.9)	(28.6)	(20.3)
Proceeds on sale of assets/investments	0.9	50.9	8.7	7.2	12.3
Other net investment proceeds	3.4	2.4	5.9	0.0	(0.5)
Shares issued/(redeemed)	-	17.9	37.0	(39.2)	45.7
Net cash available/(consumed)	**(94.7)**	**41.9**	**(119.6)**	**(1.0)**	**165.2**
Borrowings raised/(repaid)	66.9	5.8	76.7	86.3	(193.1)
Net increase/(decrease) in cash and cash equivalents	**(27.8)**	**47.7**	**(42.9)**	**85.3**	**(27.9)**
Balance Sheet					
Total shareholders' interest	732.8	913.3	968.1	1,224.4	1,550.2
Total interest-bearing debt	247.8	257.8	330.1	730.4	1,060.6
Policyholders liability under insurance contracts	8.3	10.7	16.6	38.5	44.8
Income tax liabilities	35.4	59.7	62.3	216.3	312.4
Accounts payable	167.3	256.3	129.2	32.1	78.9
Other liabilities	30.7	22.2	26.6	232.8	112.2
Total liabilities & equity	**1,222.3**	**1,520.0**	**1,532.9**	**2,474.5**	**3,159.1**
Fixed assets	129.7	160.5	179.3	203.1	269.3
Intangible assets	240.9	261.5	232.6	212.4	197.6
Advances	207.8	275.3	360.7	700.0	807.0
Investment property	232.8	318.0	344.2	537.3	708.8
Receivables	197.5	317.4	271.2	230.8	574.4
Cash and cash equivalents	82.7	101.0	46.9	131.6	118.7
Other assets	130.9	86.3	98.0	459.3	483.3
Total assets	**1,222.3**	**1,520.0**	**1,532.9**	**2,474.5**	**3,159.1**
Ratios					
EBITDA (NAD'm)	246.1	294.8	71.5	357.4	501.9
Cash flow:					
Operating cash flow : Interest bearing debt (%)	(4.7)	14.9	(31.6)	10.3	15.9
Profitability:					
Annuity income growth (%)	11.9	0.5	(18.4)	5.9	1.4
Total income growth (%)	11.1	12.7	(24.1)	51.7	19.3
EBITDA : revenues (%)	33.0	35.1	11.2	37.0	43.5
Operating profit margin (%)	30.1	31.5	6.9	31.1	34.4
EBITDA : average total assets (%)	23.0	21.5	4.7	17.8	17.8
Cost to income (%)	43.4	39.0	74.0	48.1	42.6
Effective tax rate (%)	5.5	9.4	9.8	15.9	23.5
Return on equity (%)	34.9	29.1	4.2	23.1	21.9
Return on assets (%)	19.7	17.5	2.6	12.6	10.8
Coverage:					
Dividend cover	20.7	9.3	1.3	16.4	7.4
Gross interest cover (x)	21.7	17.3	14.3	13.9	9.0
Net interest cover (x)	n.a.	92.7	16.6	14.7	9.6
Liquidity:					
Current ratio (:1)	4.3	3.9	3.7	2.0	4.3
Capitalisation:					
Equity : Total assets (%)	60.0	60.1	63.2	49.5	49.1
Retention rate (%)	95.2	89.2	24.1	93.9	86.5
Leverage:					
Total debt : equity (%)	33.8	28.2	34.1	59.7	68.4
Net debt : equity (%)	22.5	17.2	29.3	48.9	60.8
Total debt : EBITDA (%)	100.7	87.4	461.7	204.4	211.3
Net debt : EBITDA (%)	22.5	17.2	396.1	167.5	187.7
Loan to value					
Total debt : properties (%)	106.4	81.1	95.9	135.9	149.6
Net debt : properties (%)	70.9	49.3	82.3	111.4	132.9
Total debt : properties & student advances (%)	56.2	43.5	46.8	59.0	70.0
Net debt : properties & student advances (%)	37.5	26.4	40.2	48.4	62.1

* Restated

This page is intentionally left blank

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S FINANCIAL INSTITUTIONS GLOSSARY

African Development Bank	A development finance institution, headquartered in Tunis, which aims to reduce poverty/promote social development among its members.
Annual Report	A status report on the current financial condition of a company. It usually includes the chairman's report, the auditor's report and detailed financial statements. It is issued once a year for shareholders to examine before the annual general meeting (AGM). In many markets, comprehensive Integrated Reports covering a wide spectrum of information have replaced traditional annual reports.
Arrears	An overdue debt, liability or obligation. An account is said to be 'in arrears' if one or more payments have been missed in transactions where regular payments are contractually required.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Asset Quality	Asset quality refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (i.e. being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Audit Report	An audit report is a written opinion of an auditor (attesting to the financial statements' fairness and compliance with generally accepted accounting principles).
Bad Debt	A bad debt is an amount owed by a debtor that is unlikely to be paid due, for example, to a company going into liquidation. There are various technical definitions of what constitutes a bad debt, depending on accounting conventions, regulatory treatment and the individual entity's own provisioning and write-off policies.
Balance Sheet	Also known as a Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Basis Point	A basis point is 1/100th of a percentage point.
Bond	A long term debt instrument issued by either: a company, institution or the government to raise funds.
Capital	The sum of money that is invested to generate proceeds.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its current liabilities and also in relation to the risks associated with its assets. An appropriate level of capital adequacy ensures that the entity has sufficient capital to support its activities and that its net worth is sufficient to absorb adverse changes in the value of its assets without becoming insolvent.
Capital Base	The issued capital of a company, plus reserves and retained profits.
Cash	Funds that can be readily spent or used to meet current obligations.
Cash Equivalent	An asset that is easily and quickly convertible to cash such that holding it is equivalent to holding cash.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Collateral	Asset provided to a creditor as security for a loan.
Consumer Price Index	CPI is an index of inflation. It is calculated by collecting and comparing the prices of a set basket of goods and services bought by a typical consumer at regular intervals over time.
Corporate Governance	Corporate governance broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed, and is used to ensure the effectiveness, accountability and transparency of an entity to its stakeholders.
Cost of Funds	The rate that a bank pays to borrow funds.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit Rating Agency	An entity that provides credit rating services.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and/or interest when due.
Creditworthiness	An assessment of a debtor's ability to meet debt obligations.
Currency risk	The potential for losses arising from adverse movements in exchange rates.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Debt Financing	Raising capital by selling debt instruments such as bonds, bills or notes.
Default	Failure to meet the payment obligation of either interest or principal on a debt or bond. Technically, a borrower does not default, the initiative comes from the lender who declares that the borrower is in default.
Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Drawdown	When a company utilises facilities availed by a financial institution or an international lender there is said to be a drawdown of funds.
EBITDA	EBITDA is useful for comparing the income of companies with different asset structures. EBITDA is usually closely aligned to cash generated by operations.
Enterprise Risk Management	ERM refers to an integrated or holistic approach to managing risk across an organisation, using clearly articulated frameworks and processes controlled from board level.

Equity	Equity (or shareholders' funds) is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Exchange	A standardised marketplace in which different assets are traded.
Exchange Rate	The value of one country's currency expressed in terms of another.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding.
Facility	The grant of availability of money at some future date in return for a fee.
Fair Value	The fair value of a security, an asset or a company is the rational view of its worth. It may be different from cost or market value.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Financial Statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time.
Forecast	A calculation or estimate of future financial events.
Franchise	Business or banking franchise; a bank's business.
Gearing	With regard to corporate analysis, gearing (or leverage) refers to the extent to which a company is funded by debt.
Guarantee	An undertaking in writing by one person (the guarantor) given to another, usually a bank (the creditor) to be answerable for the debt of a third person (the debtor) to the creditor, upon default of the debtor.
IFRS	IFRS is designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.
Impairment	Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments.
Income Statement	A summary of all the expenditure and income of a company over a set period.
Insolvent	When an entity's liabilities exceed its assets.
Institutional Investors	Financial institutions such as pension funds, asset managers and insurance companies, which invest large amounts in financial markets on behalf of their clients.
Intangible Assets	The non-physical assets of a company such as trademarks, patents, copyright, information systems and goodwill.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
Interest Rate Risk	The potential for losses or reduced income arising from adverse movements in interest rates. Interest rate risk in the banking book is the risk that earnings or economic value will decline as a result of changes in interest rates. The sources of interest rate risk in the banking book are repricing/mismatch, basis and yield curve risk.
International Finance Corporation	The IFC is an affiliate of the World Bank, which finances private sector investment in developing countries and provides advisory services to businesses and governments.
JSE	Johannesburg Stock Exchange.
King III	King Code of Governance Principles and the King Report on Governance (King III) is a corporate governance code determining standards of conduct for public, private and non-profit organisations.
Lease	Conveyance of land, buildings, equipment or other assets from one person (lessor) to another (lessee) for a specific period of time for monetary or other consideration, usually in the form of rent.
Legal Risk	Legal risk arises from the necessity that the bank or group conducts its activities in conformity with the business and contractual legal principles applicable in each of the jurisdictions where it conducts its business. It is the possibility that a failure to meet these legal requirements may result in unenforceable contracts, litigation, fines, penalties or claims for damages or other adverse consequences.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
Liquidation	Liquidation is the process by which a company is wound up and its assets distributed. It can be either compulsory or voluntary. It can also refer to the selling of securities or the closing out of a long or short market position.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
Long term	Not current; ordinarily more than one year.
Margin	The rate taken by the lender over the cost of funds, which effectively represents the entity's profit and remuneration for taking the risk of the loan; also known as spread.
Market risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.

Mortgage Loan	A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan.
Net Asset Value	The value of an entity's assets less its liabilities. It is a reflection of the company's underlying value and is usually quoted on a per share basis.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account such as interest, tax, depreciation, auditors' fees and directors' fees.
Non-Performing Loan	When a borrower is overdue, typically 90+ days in arrears or as defined by the lender, or in the transaction documents.
Off Balance Sheet	Off balance sheet items are assets or liabilities that are not shown on a company's balance sheet. They are usually referred to in the notes to a company's accounts.
Operating Profit	Profits from a company's ordinary revenue-producing activities, calculated before taxes and interest costs.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk, but excludes strategic risk and reputational risk.
Option	An option gives the buyer or holder the right, but not the obligation, to buy or sell an underlying financial asset at a pre-determined price.
Overdraft	When the amount of money withdrawn from a bank account is greater than the amount actually available in the account, the excess is known as an overdraft, and the account is said to be overdrawn.
Past Due	Any note or other time instrument of indebtedness that has not been paid on the due date.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Pledge	An asset or right delivered as security for the payment of a debt or fulfilment of a promise, and subject to forfeiture on failure to pay or fulfil the promise.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Private Placement	The sale of securities to a small number of institutional investors such as large banks, insurance companies and pension funds. Such issuances do not require a formal prospectus and are often not listed on an exchange.
Prospectus	A document produced by a company issuing new equity or debt, which provides detailed information about the offering and the company.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rating Outlook	A Rating outlook indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or 'Evolving' (the rating symbol may be raised or lowered).
Receivables	Any outstanding debts, current or not, due to be paid to a company in cash.
Regulatory Capital	The total of primary, secondary and tertiary capital.
Retained Earnings	Earnings not paid out as dividends by a company. Retained earnings are typically reinvested back into the business and are an important component of shareholders' equity.
Revaluation	Formal upward or downward adjustment to assets such as property or plant and equipment.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Risk Management Process	The systematic application of management policies, procedures and practices to the tasks of risk identification, assessment and measurement, response and action, monitoring and review, and risk reporting.
Secured Loan	A loan which is backed by a pledging of real or personal property (collateral) by the borrower to the lender. Unlike unsecured loans, which are backed by a promise by the borrower that he will repay the loan, in case of a secured loan, the lender can initiate legal action against the borrower to reclaim and sell the collateral (pledged property).
Securities	Various instruments used in the capital market to raise funds.
Security	An asset deposited or pledged as a guarantee of the fulfilment of an undertaking or the repayment of a loan, to be forfeited in case of default.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short Term	Current; ordinarily less than one year.
Stock Exchange	A market with a trading-floor or a screen-based system where members buy and sell securities.
Strategic Risk	The risk of an adverse impact on capital and earnings due to business policy decisions (made or not made), changes in the economic environment, deficient or insufficient implementation of decisions, or failure to adapt to changes in the environment. Strategic risk is either the failure to do the right thing, doing the right thing poorly, or doing the wrong thing.
Write-off	The total reduction in the value of an asset.

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

Trustco Group Holdings Limited participated in the rating process via management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit rating/s has been disclosed to Trustco Group Holdings Limited with no contestation of the rating.

The information received from Trustco Group Holdings Limited and other reliable third parties to accord the credit rating(s) included:

- Audited financial results of the group to 31 March 2015;
- Four years of comparative numbers;
- Budgeted financial statements for Trustco Group Holdings Limited;
- Latest internal and/or external reports to management;
- A breakdown of facilities available and related counterparties; and
- Corporate governance and enterprise risk framework.

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.