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Trustco Group Holdings Limited

Namibia Financial Institution Analysis **July 2016**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long-term	National	BBB+$_{(NA)}$	Stable	July 2017
Short-term	National	A2$_{(NA)}$		

Financial data:

(USDm comparative)

	31/03/15	31/03/16
NAD/USD (avg.)	11.06	13.77
NAD/USD (close)	12.09	14.83
Total assets	261.3	270.7
Total capital	128.2	147.6
Borrowings	87.7	75.7
Net advances	66.7	79.8
Liquid assets	9.8	6.7
Operating income	76.2	65.1
Profit after tax	27.4	30.5
Market cap.*	ZAR2.90bn/USD202m	
Market share	n.a.	

* Relates to Trustco's Johannesburg Stock Exchange listing. Valuation on 19 July 2016 (ZAR/USD 14.35).

Rating history:

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

Last rating (July 2015)
Long-term: BBB$_{(NA)}$
Short-term: A2$_{(NA)}$
Rating outlook: Positive

Related methodologies/research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2016

Trustco rating reports (2012-15)

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Summary rating rationale

- The ratings of Trustco Group Holdings Limited ("Trustco", "the group") reflect its entrenched financial services position (in education finance and mass-market insurance), and value-adding property investments in Namibia. Improved capital and leverage metrics relative to its evolving risk profile/business mix also support the ratings.
- In addition, the ratings/outlook consider Trustco's increasing operational scale, improved organisational efficiency, and long-term earnings diversification plans (which include securing and developing opportunities in the diamond sector), coupled with supportive macroeconomic and property price trajectories in Namibia. Furthermore, strategic initiatives in relation to the property sales pipeline have begun to enhance the quantum/sustainability of income from investments.
- Trustco's total debt/equity ratio improved to 51.3% at FYE16 (FYE15: 68.4%), reflecting its use of equity as opposed to debt to fund interest-bearing asset growth in F16. The group's capitalisation ratio improved to 54.5% at FYE16 (FYE15: 49.1%), on the back of earnings retention (NAD370m) and supportive dividend policies.
- Total assets grew by 27.1% at FYE16 to over NAD4bn, driven by advances (up 47%), investment property (up 15%), receivables (up 33%) and fixed assets (up 71%).
- Impaired loans comprised 3.0% (FYE15: 5.6%) of gross loans at FYE16 and are fully provided against. However, asset quality in the student loan book weakened in F16, with a surge in past due (but not impaired) loans.
- Trustco posted 38.5% net income growth to NAD420m in F16. Earnings from insurance, finance and investments easily absorbed the losses from banking, which is in a startup phase. The investment segment contributed NAD317m. Return on assets and equity improved marginally to 11.7% and 22.5% respectively in F16 (F15: 10.8% and 21.9%).
- 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 the group's 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, earnings, and/or leverage (beyond sustainable levels), combined with adverse macroeconomic developments in key markets, or failure to develop new businesses appropriately.

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Organisational profile

Business overview[1]

Trustco (incorporated in Namibia), which has a primary Johannesburg Stock Exchange ("JSE") listing and a secondary listing on the Namibian Stock Exchange ("NSX"), 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, through the launch of Trustco Bank Namibia Limited ("Trustco Bank"), and more recently the acquisition of a Namibian diamond mine and Windhoek-based diamond cutting and polishing factory (subject to regulatory approval). During F16, Trustco completed another synergistic acquisition, that of Watermeyer Mining and Construction ("WMC")[2], which enabled the group to rapidly advance the delivery of serviced land to the public and in doing so created the first significant new assets in Trustco Bank, being a mortgage loan portfolio of NAD40m.

The group's three main operating segments are 'Insurance', 'Investments', and 'Banking and Finance', each of which reports subsegments.

Table 1: Subsegment 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>South Africa</u> Long and short term insurance products through registered financial services providers.
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>Resources</u> Primary focus currently is to develop a diamond business across the complete diamond value chain. <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 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 subsegments.

[1] For a detailed breakdown of the group, refer to previous rating reports.
[2] Specialising in civil engineering construction, infrastructure development, project management and plant hire.

Strategy and prospects

While Trustco's core focus remains in the insurance and investments segments, through new products and corporate acquisitions, anticipated growth is expected in the banking and finance segment where the foundation is being laid. Tactically, the implementation of the strategy includes:

- Banking and finance – (i) implementing a fully-fledged banking system geared to provide a unified solution to manage credit, operational and compliance risk; (ii) capitalising Trustco Bank; and (iii) scaling up financial inclusion-focussed and mortgage offerings;
- Insurance – enhancing Namibian insurance penetration while maintaining the client/product focus; and
- Investments – continuing to deliver regular/ predictable property-related income through sales of Elisenheim and LaFrenz erven, and consolidation of the new resource segment.

During F16, the group's focus was primarily domestic. Acquisitions took place to re-shape the group in line with the new strategic vision, which includes investing in resources. Whilst the group's vision is not restricted to one specific segment within the resources sector, the primary focus at this point is to develop a diamond business from "mine to market".

The first mining transaction is the acquisition of Huso Investments ("Huso") from Dr Quinton van Rooyen ("Dr van Rooyen") – Trustco's founder/controlling shareholder. Huso is the holding company of Northern Namibia Development Company ("NNDC"), a diamond mining and exploration entity, and Morse Investments ("Morse"), a licensed diamond processing and polishing factory both in Namibia. The transaction received majority approval by Trustco's shareholders in October 2015, subject to certain conditions. All the conditions, except one, being regulatory requirements (including obtaining necessary licenses and approvals), have been met.

Subsequent to the initial transaction, Huso identified a target company, which holds an exploration license in the diamond fields of Sierra Leone. The license area contains several known kimberlite deposits. Huso is currently engaged in negotiations with the target company to participate in the geo-economic evaluation and development of the resource. While the transaction is subject to the outcome of an independent due diligence review, Huso is confident that it will reach a definitive agreement with the target company, whereby Huso shall acquire a controlling stake in the license, adding an additional diamond resource to Huso's portfolio, most likely before the Huso/Trustco transaction is closed. Irrespective of when the transaction closes, Dr van Rooyen shall finance the initial exploration programme related to the target company, carrying the exposure until this project is partly derisked.

There will be no further payment to Dr van Rooyen for this additional asset above the payment schedule as agreed in the initial Huso/ Trustco transaction.

Going forward, Morse has identified a well-established jewellery outlet in Namibia, which it plans to acquire, with the aim to design, brand and market its diamonds and jewellery directly to customers both in the local and international markets.

Ownership structure

With the exception of Dr van Rooyen, shareholder composition is relatively diversified. Table 2 summarises the group's effective beneficial shareholding structure at 31 March 2016.

Table 2: Shareholding composition	%
Dr van Rooyen (founding director)	50.8
US Mutual Fund holdings (combined, various custodians)	25.5
IFC/World Bank (through Citibank NA)	3.4
South African asset management holdings (combined)	5.6
Other investors (all <2% holdings)	14.7
Held by public investors	46.8
Held by associates, directors and employees	53.2

Source: Trustco.

The group sold 61.7m (F15: 15.2m) treasury shares held by Trustco Life Limited into the market at an average price of NAD4.03 per share in F16. Management is not aware of further intended changes to the shareholding/control structure over the short/medium term.

Governance structure

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. 4/2 ordinary/extraordinary meetings were held in F16.
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.

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 government's development agenda.

Apart from the appointment of a new company secretary and managing director of Trustco Bank in F16, there have been no significant changes to the control structure of the group.

Risk management and compliance structures

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 regulatory bodies to which Trustco businesses report, is constantly monitored and reported upon to the board and ARC. 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 diamond mining).

Human resources and staffing

Trustco's owner-managed business has shown stable management, with extensive experience in their respective insurance, investment and finance fields, supporting high levels of management competence/ flexibility. The staff complement increased to 672 at FYE16 from 606 at FYE15. Most of the new hires were in the construction company acquired, WMC, and are manual semi-skilled labourers. 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 F16 financial statements. 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)
The Namibian economy registered solid GDP growth of more than 5% between 2011 and 2014. GDP growth is estimated to have eased to around 4.5% in 2015 (2014: 6.4%), with growth largely supported by increased mining production and construction activities, as well as higher sales in the wholesale and retail trade sectors. This was, however, partly offset by weaker performances in the transport and tourism sectors. GDP growth is expected to be sustained at reasonably strong levels in 2016. However, downside risks include constrained commodity prices, drought conditions, the continued weak performance of the South African economy (a key trade partner) and exchange rate volatility.

The Namibian dollar (pegged to the South African Rand – "ZAR"), averaged NAD12.77/USD in 2015 (2014: NAD10.84/USD), and ended the year at a significantly weakened NAD15.54/USD following the sharp depreciation of the ZAR. The NAD has recovered somewhat to around NAD14.3/USD, following renewed interest by investors in emerging markets.

Annual inflation improved to around 3.4% in 2015 from 5.4% in 2014, supported by an easing in food, transport and housing costs. Further pressure on the ZAR exchange rate could, however, increase Namibia's exposure to imported food and services related price inflation over the short to medium term. In response to increasing levels of household instalment credit, the Monetary Policy Committee of the BoN the increased the repo rate by 25 basis points in June 2015, to 6.5%. This held steady for the remainder of 2015, after which increases of 25bps each were applied in February and April 2016, effectively raising the repo rate to 7%. This was done to align rates with the Common Monetary Area and sustain the link between the ZAR/NAD exchange rates.

Macroeconomic environment (South Africa)
Although the group's operations are predominately based in Namibia, Trustco's businesses are indirectly exposed to the happenings in the South African economy given the strong ties between the countries (ie, major trading partners and a fixed exchange rate). As such, Monetary Policy decision making by the BoN is closely linked to events in South Africa. Consequently, a brief overview of South Africa's macroeconomic environment follows.

South Africa's 2015 real GDP growth moderated to 1.3% (2014: 1.5%). Continued labour unrest and energy constraints contributed to lower productivity and rising inflationary pressures. The Rand traded weaker against major currencies in 2015, closing at ZAR15.53/USD at end-2015 (end-2014: ZAR11.61/USD), exacerbating inflationary pressures. The South African Reserve Bank ("SARB") raised the repo rate by 50bps in January and 25bps in March 2016 (2015: cumulative 50 bps), in response to inflation estimates which exceeded the 3-6% target range. While lower oil prices offered some respite in 2015, the Rand has remained weak, and weakened further following a December 2015 shuffle in the Finance Ministry.

Several factors continue to weigh on South Africa's economic growth prospects, including a weak global economic climate, low commodity prices, a rising interest rate cycle, volatile labour relations, a severe drought, low investment and business confidence, and increasing polarisation of socio-political sentiment. Disposable incomes are likely to continue experiencing downward pressure, and the SARB's real GDP growth projections for 2016 have been revised down to 0.6% (from 1.5% in the September Monetary Policy Committee statement). Actual performance in 2015 reflected an extension of 2014's challenges, and South Africa faces the risk of a sovereign rating downgrade to non-investment grade.

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, Namibia was placed second globally in terms of property price growth in 2015. As housing supply and land delivery remain weak, housing demand in the short to medium term is expected to continue to support property inflation. However, house prices are expected to ease over the long term as the government focuses on improving the supply of property, albeit low cost housing. House price growth of around 18% was recorded in 2015 mainly on the back of robust consumer demand. As such, supply-demand imbalances appear to be supportive of property prices, although affordability considerations, risk of further interest rate hikes, and slower economic growth pose some risks to real estate prices.

Financial profile

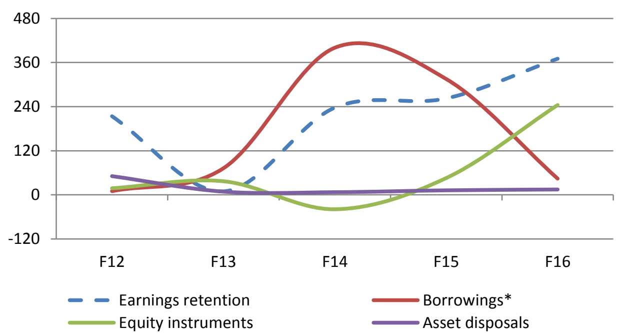
Likelihood of support

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

Debt funding normalised in F16, after robust growth in F14 and F15. As such, growth was primarily equity funded. Retained earnings (NAD370m) and proceeds on sale of deemed treasury shares (NAD244m) made a significant contribution (NAD615m) to the group's overall funding base at FYE16. 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.

Funding trends (annual change, in NADm)



* Interest-bearing, excluding the effects of overdrafts and a vendor acquisition loan, of which NAD71m was repaid in F15 (F14: NAD124m).

The total funding increase in F16 of NAD674m (F15: NAD636m) comprised mainly net equity increases (retained earnings plus movements in treasury shares) of NAD615m (F15: NAD308m) and NAD44m (F15: NAD315m) in net new debt raised.

DFIs represent the majority of the group's debt 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.

Table 4 sets out Trustco's liability funding sources.

Table 4: Funding base (by term and type)	F15 NADm	F15 %	F16 NADm	F16 %
Short-term funding	**233.9**	**20.4**	**348.3**	**29.9**
Overdraft	*15.0*	*1.3*	*17.2*	*1.5*
Current portion, long-term†	*133.0*	*11.6*	*286.2*	*24.5*
*Vendor acquisition loan**	*85.4*	*7.4*	*14.5*	*1.2*
Related party loans	*0.5*	*<0.1*	*30.4*	*2.6*
Long-term funding	**912.7**	**79.6**	**818.5**	**70.1**
Term loans and other†	*618.2*	*53.9*	*532.9*	*45.7*
Debt securities in issue	*294.5*	*25.7*	*285.6*	*24.5*
Total	**1,146.6**	**100.0**	**1,166.8**	**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.
* The remaining balance of NAD14.5m is payable in July 2016, and relates to the purchase of WMC.
Source: Trustco.

Capital adequacy and leverage

In F16 (as was the case 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 dividend policy/growth as tools to retain capital at comfortable levels. The group seeks to maintain a strong capital base so as to promote investor, creditor and market confidence, and sustain future business development.

The group's capital/assets ratio increased to 54.5% at FYE16 (FYE15: 49.1%), 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	F15 NADm	F16 NADm
Total reported capital	**1,543.9**	**2,101.8**
Paid up common shares	*223.9*	*223.9*
Eligible reserves	*1,320.0*	*1,877.9*
Add: Net capital instruments	48.3	72.3
Total primary capital	**1,592.2**	**2,174.1**
Add/(less): Net capital instruments	(42.0)	15.0
Total available capital	**1,550.2**	**2,189.1**
Total balance sheet assets	**3,159.1**	**4,014.0**
Selected ratios (%):		
Total capital : Total assets†	49.1	54.5
Annual dividend pay-out rate	13.5	11.8
Total borrowings : Total capital	68.4	51.3
Net borrowings : Total capital	60.8	46.7

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

Following significantly higher increases in equity compared to debt during F16, the group's relative leverage declined, with total and net debt to capital ratios reducing to 51.3% and 46.7% at FYE16

(FYE15: 68.4% and 60.8%) respectively. As such, leverage remains manageable both in terms of risk and cash flows. Debt/EBITDA decreased in F16 from 2.1x to 1.9x, while gross interest cover fell from 9x (F15) to 7.7x in F16.

Overall, Trustco's capitalisation and leverage metrics improved in F16 and 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 F16.

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 startup) 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 – Despite a minimal increase in debt funding levels in F16, Trustco's funding costs increased by 27.3% to NAD134.3m as a result of increased JIBAR and local prime rates, as well as new replacement debt being on average more expensive due to the widening cost of ZAR/USD swaps. Deposits at Trustco Bank rose from NAD11.2m to NAD67.8m in F16, and have the potential to moderate funding costs somewhat going forward, but is a longer-term consideration given the nascent stage of banking operations.

Covenants – At FYE16, the leverage capacity ratio (group tangible net asset value to liabilities) was 0.88x (FYE15: 1.16x), below the revised covenant of 1.0x, 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 NAD821.1m at FYE16.

Operational profile

Net advances plus investment property (including real estate inventories) as a proportion of Trustco's group balance sheet remained stable in F16/F15 at around 58%. At FYE16, receivables increased by 33% largely as a result of NAD690.8m (FYE15: NAD501.5m) in property receivables relating to sales of Elisenheim erven, which are awaiting servicing and transfer. NAD157m of property debtors were realised in F16. Liquid asset balances declined to NAD99.8m (FYE15: NAD118.7m), but remained at acceptable levels. Fixed assets increased by 1.7x due to purchases and revaluations of aircraft (used by Trustco Air Services), while the acquisition of WMC attracted goodwill of NAD9.5m.

Table 6: Asset breakdown	F15		F16	
	NADm	%	NADm	%
Cash and equivalents	118.7	3.8	99.8	2.5
Net advances*	807.0	25.5	1,184.1	29.5
Investment property†	1,024.9	32.4	1,136.4	28.3
Fixed and intangible assets	466.9	14.8	669.2	16.7
Receivables	574.4	18.2	765.9	19.1
Other assets	167.2	5.3	158.6	3.9
Total B/S assets	**3,159.1**	**100.0**	**4,014.0**	**100.0**

* Includes mortgages, student loans, SME loans and other advances.
† Includes NAD320.2m (F15: NAD316.1m) related to residential property stock purchased in the Elisenheim transaction.
Source: Trustco.

Once the Huso acquisition has been consolidated into the group, the mix of the balance sheet will change slightly to demonstrate an increased reliance on property, plant and equipment with specific growth occurring in mining plant and yellow equipment used to operate the mine.

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

Risk focus

Based on a continuous risk assessment process undertaken by Trustco, market (in particular property price) risk, credit risk, liquidity risk, reputational risk and operational risk are considered to be the most significant risks to which the group is exposed.

Market risk
The risk of lower property prices, given the existence of a possible housing bubble in the country which could potentially alienate investors from Namibia's real estate market, 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, 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 47.5% to 51.1% of total assets, with property sale-related receivables and net advances increasing as a component of credit exposure.

Table 7: Credit risk exposure	F15		F16	
	NADm	%	NADm	%
Loans and placements	**925.7**	**29.3**	**1,283.9**	**32.0**
Net customer loans	*807.0*	*25.5*	*1,184.1*	*29.5*
Bank loans/deposits	*118.7*	*3.8*	*99.8*	*2.5*
Other receivables*	**574.4**	**18.2**	**765.9**	**19.1**
Property sales	*501.5*	*15.9*	*690.8*	*17.2*
Trade and other	*72.9*	*2.3*	*75.2*	*1.9*
Total B/S assets	**3,159.1**	**47.5**	**4,014.0**	**51.1**

* Including NAD30.8m (FYE15: NAD30.8m), which was more than 6 months past due but not impaired at FYE16.
Source: Trustco.

The loan book comprises student loans, property finance and limited group lending/SME loans through Trustco Bank. Property advances increased from NAD125m (F15) to NAD421m (F16) and student advances to NAD722m (F15: NAD631m), while other loans decreased to NAD41m from NAD51m.

Overall, loan credit quality improved, with impairments relative to gross loans reducing to 3.0% at FYE16 from 5.6% at FYE15/14. 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 marginally increased during F16, from 18.2% of total assets at FYE15 to 19.1% (FYE16), and relates primarily to properties sold, where transfer has not yet taken place (in F16, mainly the sale of Elisenheim erven).

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 had undrawn facilities of NAD217m at FYE16 (FYE15: NAD80m).

Net liquid assets fell from 3.8% to 2.5% of balance sheet assets during F16. 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.

Risk of water restrictions on the servicing of land
Given the drought currently being experienced in Southern Africa, residential water restrictions have been implemented in parts of Namibia, including Windhoek. If water shortages continue, there is a risk of water limits being placed on land servicing, which has the potential to negatively impact property sales.

Operational segment focus
The reportable segments of the group (ie, Insurance, Investments, and Banking and Finance, described below) form a basis by which management formulates key operating decisions, allocates resources and assesses performance. Insurance includes the Namibian short and long term insurance businesses, as well as the South African operations (which have been wound down to a break-even level). Given the relative insignificance of the South African insurance business, the results of the insurance segment are aggregated into one geographical segment. The Banking and Finance segment includes Trustco Bank, and the student and mortgage loan businesses, while Investments is divided into 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 subsegments.

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

Table 8: Segmental asset mix	F15		F16	
	NADm	%	NADm	%
Insurance	422.6	13.4	325.7	8.1
Investments	1,214.6	38.4	2,180.7	54.3
Banking and Finance	1,521.9	48.2	1,507.6	37.6
Total B/S assets	**3,159.1**	**100.0**	**4,014.0**	**100.0**

Source: Trustco.

Table 9: Segmental profit*	F15		F16	
	NADm	%†	NADm	%
Insurance	(15.5)	(3.8)	45.0	10.7
Investments	266.2	65.5	317.4	75.6
Banking and Finance	52.5	12.9	57.3	13.7
Total profit	**303.2**	**100.0**	**419.8**	**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).

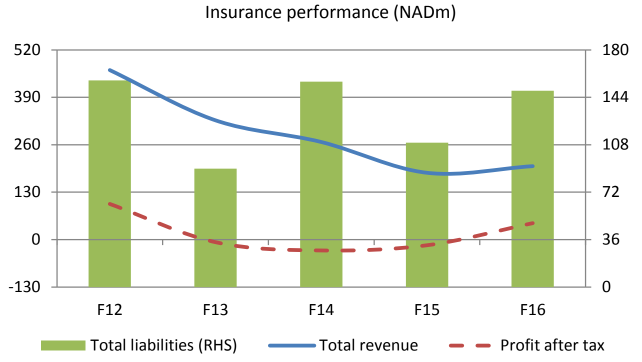
Product category	Description, legal entity
Namibia	
Short-term insurance	Legal, medical and salary protection cover (through Trustco Insurance).
Funeral-related insurance	Funeral cost, transport cost, and family support cover (through Trustco Life).
Term life	'Yambu' branded, with health risk-linked 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 around 300,000 Namibians[3], and has the largest market share by number of policies (mostly in low-premium products).

[3] Trustco's number of insured members has steadily decreased since 2014 (down from 350,000 (F14) to 300,000 (F16)) mainly due to the discontinuation of its short duration 'free' life cover, a loyalty programme based product with distributors paying a 'premium' to Trustco based on customers' airtime/retail spend. Trustco Life and Trustco Insurance have however both increased premiums and client numbers in F17.

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.

Following operational restructures to streamline the South African insurance business (including branch closures and associated costs), the total insurance segment returned to profitability in F16, posting an after tax profit of NAD45m (F15: NAD15m loss) due to the substantial reduction in the operating cost base in South Africa, and a 7% growth in insurance premium revenue.

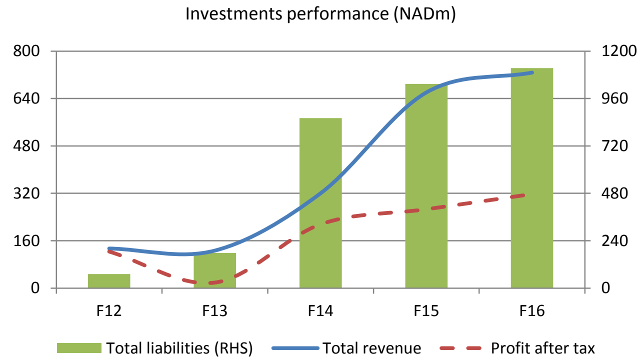


Trustco's insurance assets reduced to NAD326 (F16) from NAD423m (F15), and require a lower level of absolute funding going forward given that the SA insurance business will have to fund itself in future.

Prospects – The group is the leading mass-market insurer in Namibia. Its product range has broad appeal, while opportunities for cross-selling remain.

Investments

From 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 subsegment.



During F16, investment segment assets increased from NAD1,215m to NAD2,181m, mainly due to the acquisition of additional aircraft (used for charter flights for both business and leisure customers), fair value adjustments totaling NAD131m and NAD190m growth in property sales. Investments contributed a segment profit of NAD317m (F15: NAD266m) due to a larger realised property sales portfolio, increased educational revenue and a small increase in revenues relating to advertising income in the media division. The growth in revenues was further bolstered by a larger fair value gain in the investment portfolio.

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). 16.5 hectares (310 plots) sold in F16 for NAD298m.
Lafrenz (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.

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 18% in 2015. However, leading analysts have predicted softer property demand growth going forward, as housing affordability is becoming strained given the pressure from soaring house prices and the concern over debt-servicing costs as the effects of higher interest rates set in.

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 F16, the blended sale price/sqm was NAD1,650, 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.

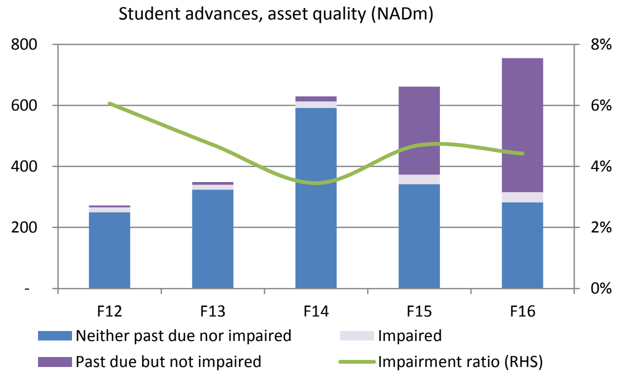
Investments – Education

This subsegment, through IOL, provides distance learning courses and materials to 19,000 active students, through Trustco's seven Namibian regional offices (and one mobile office). In addition, an IOL information centre was opened in Gobabis, a town in the East of Namibia, during F16. 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. Net profit after tax grew by 8% to NAD57m (F15: NAD53m) due to increasing loan book size and improving loan loss provision ratios. Non-performing loans across all advances showed improved credit quality.

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. Gross student advances increased by 14.1% to NAD755.4m. At FYE16, the impairment ratio decreased slightly to 4.4% (FYE15: 4.7%), with all impaired loans fully provided for. The portfolio is granular and diversified, and 83% of loan repayments (73% government, 10% private enterprise) are made by payroll deduction. Nevertheless, the majority of student loans are overdue but not impaired (58% of gross loans at FYE16), heightening credit risk.

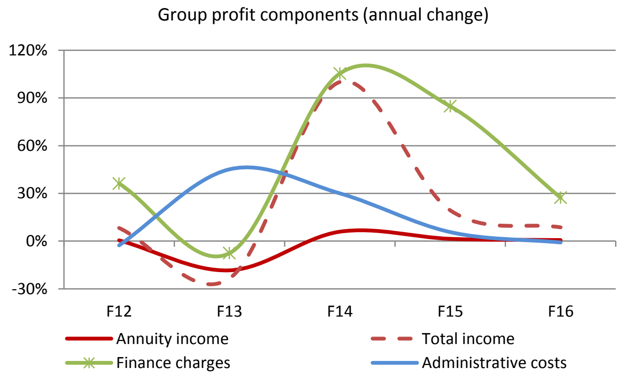


Trustco Bank completed its first full year of operations, posting a NAD10.1m loss in F16 (F15: NAD14m loss). Trustco Bank continues to make headway into becoming a fully-fledged local commercial bank through providing traditional banking products (including mortgage loans, commercial property finance, SME loans and savings and deposit accounts), as well as technology based products and services, which will be enhanced following the implementation of its new banking software. The bank grew deposits from NAD11.2m to NAD67.8m. These funds were placed with other local banks. The bank's loan portfolio, which moderated to NAD38.6m (F15: NAD48.3m) comprises SME, mortgage and property loans. Deposit growth may continue to outpace client loan growth given the expectation of rising interest rates in the Namibian banking sector, which could lead to a decrease in loan demand and negatively impact asset quality.

Prospects – 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 F16 net income rose 38.5% to NAD419.8m, driven by:

- Stable levels of annuity income (a 6.7% rise in insurance premium revenue, higher contributions from student finance and education/tuition fees, and halved levels of other income) of NAD551.2m (FYE14: NAD547.8m);
- 23.7% revenue growth from land sales (NAD620.9m) and fair value adjustments (NAD131.3m);
- Flat administrative cost growth in F16 relative to 8.6% growth in total income, as more streamlined central services functions aided cost containment (the cost/income ratio fell from 42.6% (F15) to 38.9% (F16)); and
- A 27.3% increase in finance charges to NAD134.3m largely due to higher interest rates;
- A decrease in the effective tax rate, given the decrease in taxable income relative to non-taxable income; specifically untaxed premium income relating to life insurance and non-taxable fair value gains.

Trustco's return on equity and assets improved slightly to 22.5% and 11.7% respectively in F16 (F15: 21.9%, 10.8%), and represent acceptable returns to shareholders, and high asset-based returns for an asset-focussed financial services and property business.

In F16, 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 (ie, Trustco Bank).

Trustco Group Holdings Limited

(Namibian Dollars in millions except as noted)

For the year ended: 31 March

Income Statement	**2012**	**2013**	**2014**	**2015**	**2016**
Insurance premium revenue	126.3	150.7	225.1	180.7	192.8
Broker commissions and fees	309.2	174.6	24.9	-	-
Microfinance income (interest and fees)	44.5	56.3	100.7	119.2	142.6
Education (tuition fees and related)	70.0	85.3	144.6	136.1	155.5
Investment income	24.5	3.8	3.1	6.4	3.7
Other	50.7	39.4	41.8	105.4	56.6
Total annuity type income	625.2	510.1	540.2	547.8	551.2
Realised Fair value gains/(losses)	117.3	101.1	306.3	502.1	620.9
Unrealised Fair value gains/(losses)	97.1	26.3	120.4	103.3	131.3
Total income	**839.6**	**637.5**	**966.9**	**1 153.2**	**1 303.5**
Cost of sales	(320.3)	(240.2)	(172.0)	(204.6)	(272.8)
Total income (excl. cost of sales)	**519.3**	**397.3**	**794.9**	**948.6**	**1 030.6**
Administrative expenses	(202.7)	(294.2)	(382.5)	(404.1)	(400.6)
Insurance benefits and claims	(18.9)	(26.7)	(33.1)	(36.3)	(38.0)
Transfer to policyholder liabilities	(2.4)	(5.9)	(21.9)	(6.3)	(7.9)
Change in unearned premium provision	(0.5)	1.0	-	-	-
Finance charges	(30.1)	(27.8)	(57.1)	(105.5)	(134.3)
Profit before tax	**264.7**	**43.7**	**300.3**	**396.4**	**449.9**
Taxation charge	(25.0)	(4.3)	(47.6)	(93.2)	(30.1)
Attributable earnings	**239.7**	**39.4**	**252.7**	**303.2**	**419.8**
Dividends paid	(25.8)	(29.9)	(15.4)	(40.8)	(49.4)
Retained earnings	**213.9**	**9.5**	**237.3**	**262.4**	**370.4**

Cash Flow Statement					
Cash generated by operations	**178.1**	**96.9**	**343.1**	**448.1**	**507.4**
Working Capital (increase)/decrease	(79.0)	(76.3)	(159.6)	(276.9)	(65.0)
Net loans advanced	(42.2)	(87.4)	(278.4)	(98.3)	(375.6)
Proceeds from funding for Educational advances	-	-	240.0	220.0	76.3
Net interest/dividends received	24.5	3.8	3.1	6.4	3.7
Finance costs	(30.1)	(27.8)	(57.1)	(105.5)	(134.3)
Taxation paid	(12.8)	(13.6)	(16.1)	(25.0)	(7.8)
Net cash flow from operations	**38.5**	**(104.4)**	**75.0**	**168.8**	**4.7**
Dividends paid - Ordinary shares	(25.8)	(29.9)	(15.4)	(40.8)	(49.4)
Net cash retained	**12.7**	**(134.3)**	**59.6**	**128.0**	**(44.7)**
Net investment (cost)/proceeds	**8.9**	**(28.2)**	**(21.4)**	**(8.0)**	**(140.7)**
Acquisitions/Additions to assets	(42.0)	(36.9)	(28.6)	(20.3)	(155.3)
Proceeds on sale of assets/investments	50.9	8.7	7.2	12.3	14.6
Other net investment proceeds	2.4	5.9	0.0	(0.5)	0.0
Shares issued/(redeemed)	17.9	37.0	(39.2)	45.7	244.4
Net cash available/(consumed)	**41.9**	**(119.6)**	**(1.0)**	**165.2**	**59.0**
Borrowings raised/(repaid)	5.8	76.7	86.3	(193.1)	(80.1)
Net increase/(decrease) in cash and cash equivalents	**47.7**	**(42.9)**	**85.3**	**(27.9)**	**(21.1)**

Balance Sheet					
Ordinary share capital	913.3	968.1	1 224.4	1 550.2	2 189.1
Preference share capital	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Total shareholders' interest	913.3	968.1	1 224.4	1 550.2	2 189.1
Total interest-bearing debt	257.8	330.1	730.4	1 060.6	1 121.9
Policyholders liability under insurance contracts	10.7	16.6	38.5	44.8	52.8
Income tax liabilities	59.7	62.3	216.3	312.4	339.4
Accounts payable	256.3	129.2	32.1	78.9	215.8
Other liabilities	22.2	26.6	232.8	112.2	95.0
Total liabilities & equity	**1 520.0**	**1 532.9**	**2 474.5**	**3 159.1**	**4 014.0**
Fixed assets	160.5	179.3	203.1	269.3	459.3
Intangible assets	261.5	232.6	212.4	197.6	209.8
Advances	275.3	360.7	700.0	807.0	1 184.1
Investment property	318.0	344.2	537.3	708.8	816.2
Receivables	317.4	271.2	230.8	574.4	765.9
Cash and cash equivalents	101.0	46.9	131.6	118.7	99.8
Other assets	86.3	98.0	459.3	483.3	478.8
Total assets	**1 520.0**	**1 532.9**	**2 474.5**	**3 159.1**	**4 014.0**

Ratios					
EBITDA (NAD'm)	294.8	71.5	357.4	501.9	584.2
Cash flow:					
Operating cash flow : Interest bearing debt (%)	14.9	(31.6)	10.3	15.9	0.4
Profitability:					
Annuity income growth (%)	0.5	(18.4)	5.9	1.4	0.6
Total income growth (%)	12.7	(24.1)	51.7	19.3	13.0
EBITDA : revenues (%)	35.1	11.2	37.0	43.5	44.8
Operating profit margin (%)	31.5	6.9	31.1	34.4	34.5
EBITDA : average total assets (%)	21.5	4.7	17.8	17.8	16.3
Cost to income (%)	39.0	74.0	48.1	42.6	38.9
Effective tax rate (%)	9.4	9.8	15.9	23.5	6.7
Return on equity (%)	29.1	4.2	23.1	21.9	22.5
Return on assets (%)	17.5	2.6	12.6	10.8	11.7
Coverage:					
Dividend cover	9.3	1.3	16.4	7.4	8.5
Gross interest cover (x)	17.3	14.3	13.9	9.0	7.7
Net interest cover (x)	92.7	16.6	14.7	9.6	7.9
Liquidity:					
Current ratio (:1)	3.9	3.7	2.0	4.3	5.0
Capitalisation:					
Equity : Total assets (%)	60.1	63.2	49.5	49.1	54.5
Retention rate (%)	89.2	24.1	93.9	86.5	88.2
Leverage:					
Total debt : equity (%)	28.2	34.1	59.7	68.4	51.3
Net debt : equity (%)	17.2	29.3	48.9	60.8	46.7
Total debt : EBITDA (%)	87.4	461.7	204.4	211.3	192.1
Net debt : EBITDA (%)	17.2	396.1	167.5	187.7	175.0
Loan to value					
Total debt : properties (%)	81.1	95.9	135.9	149.6	137.5
Net debt : properties (%)	49.3	82.3	111.4	132.9	125.2
Total debt : properties & student advances (%)	43.5	46.8	59.0	70.0	56.1
Net debt : properties & student advances (%)	26.4	40.2	48.4	62.1	51.1

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

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	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 (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Audit Report	A written opinion of an auditor (attesting to the financial statements' fairness and compliance with generally accepted accounting principles).
Bad Debt	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.
Banking Book	Assets on a bank's balance sheet that are expected to be held to maturity. Banks are not required to mark these to market. Unless there is reason to believe that the counterparty will default on its obligation, they are held at historical cost.
Basis Point	1/100th of a percentage point.
Bond	A long term debt instrument issued by either: a company, institution or the government to raise funds.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
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	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.
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.
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.
Downgrade	The assignment of a lower credit rating to a company or sovereign borrower's debt by a credit rating agency. Opposite of upgrade.
Drawdown	When a company utilises facilities availed by a financial institution or lender, there is said to be a drawdown of funds.
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 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.
Fixed Assets	Assets of a company that will be used or held for longer than a year. They include tangible assets, such as land and equipment, stake in subsidiaries and other investments, as well as intangible assets such as goodwill, information

	technology or a company's logo and brand.
Forecast	A calculation or estimate of future financial events.
Gearing	With regard to corporate analysis, gearing (or leverage) refers to the extent to which a company is funded by debt.
Generally Accepted Accounting Principles	A term that refers to the standards and conventions that underpin accounting rules and the preparation of financial statements in a particular country.
Goodwill	Arises upon the sale/acquisition of a business and is defined as an established entity's reputation, which may be regarded as a quantifiable asset and calculated as the price paid for a company over and above the net value of its assets. Negative goodwill refers to a situation when the price paid for a company is lower than the value of its assets.
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.
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	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 Financial Reporting Standards	IFRS is designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Investment Grade	Credit ratings equal to or higher than 'BBB-'.
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.
Long-Term Rating	Reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
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.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Monetary Policy	Measures taken by the central bank to influence the quantity of money or the rate of interest with a view to achieving stable prices, full employment and economic growth.
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 (including taxes).
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.
Primary Capital	Primary capital consists of issued ordinary share capital, hybrid debt capital, perpetual preference share capital, retained earnings and reserves. This amount is then reduced by the portion of capital that is allocated to trading activities and

	other regulatory deductions.
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	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.
Reputational Risk	The risk of impairment of an entity's image in the community or the long-term trust placed in it by its shareholders as a result of a variety of factors, such as performance, strategy execution, the ability to create shareholder value, or an activity, action or stance taken by the entity.
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.
Short-Term Rating	An opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.
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.
Tertiary Capital	Capital held by banks to cover certain classes of risk, including foreign currency exchange risk and commodities risk. To qualify as Tier 3 capital, assets must be limited to 250% of a bank's Tier 1 capital, be unsecured, subordinated, and have a minimum maturity of two years.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.
Yield Curve	A line that plots the interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates.

For a detailed glossary of terms utilised in this report please click here

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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 ratings have been disclosed to Trustco Group Holdings Limited with no contestation of the ratings.

The information received from Trustco Group Holdings Limited and other reliable third parties to accord the credit ratings included:

- Audited financial results of the group to 31 March 2016;
- 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.