

CREDIT RATING ANNOUNCEMENT

GCR affirms Trustco Group Holdings Limited's rating of BBB_(NA); Outlook Stable

Johannesburg, 24 August 2017 – Global Credit Ratings has affirmed Trustco Group Holdings Limited's national scale ratings of BBB_(NA) and A2_(NA) in the long-term and short-term respectively; with the outlook accorded as Stable. The ratings are valid until August 2018.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit ratings to Trustco Group Holdings Limited ("Trustco", "the group") based on the following key criteria:

The ratings of Trustco reflect its entrenched financial services position (in education finance and mass-market insurance), and value-adding property investments in Namibia. Furthermore, the ratings consider Trustco's very strong capitalisation, increasing operational scale, improved organisational efficiency, and long-term earnings diversification plans (which include securing and developing opportunities in the diamond sector), against a challenging domestic environment (characterised by weaker economic and property price growth rates).

While Trustco's capitalisation ratio remained relatively stable at 48.3% (FY16: 54.5%) in FY17, rising leverage during the year reflects the increased use of debt to fund interest-bearing asset growth. Strong earnings retention (FY17: NAD497m), supportive dividend policies, and diversified funding partners, including development finance institutions, support the group's increased debt capacity. In FY17, net new debt funding of NAD548m was primarily applied towards growth in net advances. Total assets grew 28.5% to NAD5,156m at FY17, driven by advances (up 54%), investment property (up 24%), intangibles (up 1.2x) and fixed assets (up 33%).

The student loan book, which comprised 40.4% of gross advances at FY17, had an impairment ratio of 5.5% (FY16: 4.4%). Impairments are fully provided for. At FY17, student advances overdue by more than three instalments decreased significantly to NAD36.5m (FY16: NAD291.8m). Property advances grew 2.5x to over NAD1bn, comprising 57.5% of gross advances at FY17, and had an impairment ratio below 1%.

Driven by property sales of NAD770m, the group's net income grew by 26.3% to NAD530m in FY17 despite lower education finance and insurance premium revenues. Return on assets and equity were stable at 11.6% and 22.6% in FY17 (FY16: 11.7% and 22.5%) respectively. Significant synergies that exist between Trustco's operating segments, and its strategy of enhancing sustainability and diversification of earnings, while prioritising stakeholder needs, support the group's earnings prospects.

Increased earnings diversification and operational efficiency, stability in segmental revenue streams, and the maintenance of conservatism in capitalisation/leverage metrics would support an upward rating movement. The ratings will be negatively impacted by adverse 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.

NATIONAL SCALE RATINGS HISTORY

Initial rating (July 2012)

Long-term: BBB_(NA); Short-term: A3_(NA)

Outlook: Stable

Last rating (July 2016)

Long-term: BBB_(NA); Short-term: A2_(NA)

Outlook: Stable

ANALYTICAL CONTACTS

Primary Analyst

Kurt Boere

Senior Credit Analyst

(011) 784-1771

boere@globalratings.net

Committee Chairperson

Omega Collocott

Sector Head: Financial Institution Ratings

(011) 784-1771

omegac@globalratings.net

APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017

Trustco rating reports (2012-16)

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SALIENT FEATURES 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 2017;
- 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.

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

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| 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. |
| Capital | The sum of money that is invested to generate proceeds. |
| 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. |
| 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. |
| 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. |
| 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. |
| 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. |
| 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. |
| 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. |

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| Leverage | With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt. |
| 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. |
| Past Due | Any note or other time instrument of indebtedness that has not been paid on the due date. |
| Receivables | Any outstanding debts, current or not, due to be paid to a company in cash. |
| Risk | The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives. |
| 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. |
| Asset | A resource with economic value that a company owns or controls with the expectation that it will provide future benefit. |
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For a detailed glossary of terms please click [here](#)

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