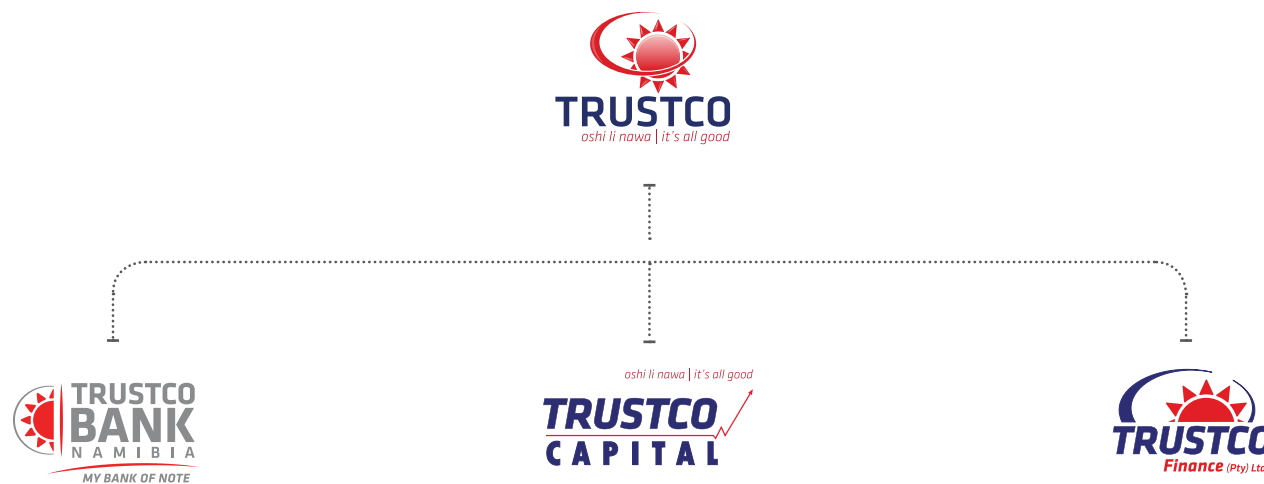


BANKING AND FINANCE SEGMENT

BANKING AND FINANCE SEGMENT STRUCTURE



BANKING AND FINANCE SEGMENT

CONDENSED CONSOLIDATED FINANCIAL RESULTS

BANKING AND FINANCE SEGMENT STATEMENT OF FINANCIAL POSITION

	2018 NAD '000	2017 NAD '000
Assets		
Non-current assets		
Property, plant and equipment	1 798	3 157
Intangible assets	112 737	110 132
Amounts due by related parties	82 376	108 733
Loans and advances	1 739 208	1 816 681
Deferred tax	2 757	-
	1 938 876	2 038 703
Current assets		
Trade and other receivables	19 842	19 728
Cash and cash equivalents	34 617	7 304
	54 459	27 032
Total assets	1 993 335	2 065 735
Equity and liabilities		
Equity		
Share capital	350 000	270 000
Reserves	20 828	9 841
Retained income	33 393	35 698
	404 221	315 539
Liabilities		
Non-current liabilities		
Amounts due to related parties	1 088 004	1 103 960
Other financial liabilities	426 465	556 918
Deferred tax	-	522
	1 514 469	1 661 400
Current liabilities		
Trade and other payables	53 540	58 544
Current tax payable	6 294	25 328
Deposits	14 811	4 924
	74 645	88 796
Total liabilities	1 589 114	1 750 196
Total equity and liabilities	1 993 335	2 065 735

STATEMENT OF COMPREHENSIVE INCOME

Revenue	198 617	247 078
Cost of sales	(6 488)	(26 136)
Gross profit	192 129	220 942
Other operating income	1 323	3 388
Other operating expenses	(109 177)	(78 120)
Operating profit	84 275	146 210
Investment income	1 550	636
Finance costs	(73 950)	(90 750)
Profit before tax	11 875	56 096
Taxation	(14 180)	(21 940)
(Loss) / profit for the year	(2 305)	34 156

STATEMENT OF CASH FLOWS

Cash flows from operating activities	(7 492)	(3 248)
Cash flows from investing activities	75 372	(188 226)
Cash flows from financing activities	(40 567)	122 089
Total cash movement for the year	27 313	(69 385)
Cash at the beginning of the year	7 304	76 689
Total cash at the end of the year	34 617	7 304

BANKING AND FINANCE SEGMENT

BANKING AND FINANCE



CHALLENGE

Despite the current slowdown in economic activity and pressure on the sovereign rating, Trustco Bank remains cautiously optimistic about the medium term outlook for Namibia.

MACRO-ECONOMIC ENVIRONMENT

The economy lost its momentum which resulted in listless growth across most sectors. High interest rates weighed on consumer spending. While water shortages constrained growth in the agricultural, mining and manufacturing sectors, the completion of several projects in the construction industry came to a relative standstill.

Layoffs in the agricultural, trade and manufacturing sectors along with the hiring freeze in the public sector, contributed to a higher unemployment rate, stagnating real income growth, along with a slowdown in credit demand. During the period under review, both Fitch and Moody's revised Namibia's sovereign credit rating outlook from neutral to negative, highlighting deterioration in the government's fiscal position. Despite the current slowdown in economic activity and pressure on the sovereign rating, Trustco Bank remains cautiously optimistic about the medium term outlook for Namibia.

Over the short run, an increase in public debt arising from fiscal expansion stimulates aggregate demand, which should assist renewed economy growth. However, over the long run economic impact of public debt accumulation can lead to constrained economic growth. Government debt has accumulated by 731% over the last ten years to NAD 72.9 billion and thus the current adjustments to fiscal consolidation drove the economy into its 1st annual contraction.

NAMIBIA'S OPERATING CONTEXT

The Namibian economy was under severe pressure over the past years as growth slowed to -0.08% in the 2017 calendar year, from 0.7% in 2016. Following four quarters of negative growth, the economy is currently in a recession. Government spending was tightly curtailed with a concomitant and significant impact on market liquidity.

Policy rates in Namibia remained stable over the year, however due to the challenges experienced within the overall market liquidity, the short term money market rates saw a drastic increase with a significant deviation to that of the South African yield curve. As a result of these challenges, the banking sector experienced significant increases in the cost of funding, which was exacerbated by low credit growth and sluggish business activity.

From 2018 onward, GDP growth is likely to be supported by an expansion in uranium mining and a slower pace of contraction in construction activity. The Namibia Statistics Agency predicts that private sector credit extension is expected to recover and average between 6% and 8% for the 2018 calendar year.



SOCIAL MEDIA COMMENTS



As a young woman, being financially savvy is a must. Trustco Bank explained their investment products so well and they helped me make the right investment choice for me. Thank you Trustco Bank

TBN recently informed me on their wide range of investment and saving products in a way that has never really been explained to me before by other financial service providers. I feel much better equipped to make discerned investment choices for me and my family. Thank you Trustco Bank Namibia.

BANKING AND FINANCE SEGMENT

TRUSTCO BANK NAMIBIA



THE NAMIBIA
STATISTICS AGENCY
PREDICTS THAT
PRIVATE SECTOR
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2018 CALENDAR
YEAR

OVERVIEW

Trustco Bank's vision remains aligned within the group it operates in, to generate above average growth and to create wealth for its shareholders, customers and employees while impacting positively on society and the planet. Trustco Bank continues to service the financial sector as well as the broader Namibian public.

PRODUCTS

Trustco Bank maintained a continuous public awareness savings campaign during the reporting period, coupled with the marketing of its loan products as well as an investment column in the *Informanté* newspaper providing investment advice to the public.

The product suite has undergone a full review to cater for the Namibian market, whilst existing products were improved.

The transactional accounts includes the following:

- **Basic bank account** – ideal for the lower income group or the previously unbanked
- **Sapphire account** – suitable for the middle income group
- **Emerald account** – aimed at the middle to higher income group
- **Diamond account** – targeted for the higher income group
- **Youth account** – introduced for the younger generation, and
- **Business account** – earmarked for businesses.

The investment accounts includes:

- **Savings account** – developed for clients who want to save and have immediate access to their funds
- **Call deposit** – established for clients saving funds for an indefinite period, but require access to their funds on demand
- **Notice deposit** – introduced for clients saving their funds for a specific fixed period and
- **Fixed deposit** – aimed at clients who save funds for a longer period.

VALUE PROPOSITION – CUSTOMER GROWTH

During the implementation of the new banking system, Trustco Bank designed and introduced the following transactional products; Diamond, Sapphire, Emerald and Youth accounts. In terms of Bank of Namibia ("BoN") requirements, Trustco Bank has further introduced a basic bank account called the "All Star" to all existing Fides account holders. In order to reach its goal, to open 10 000 transactional accounts, Trustco Bank envisages targeting the group's existing client base, within the legal framework, which consists of in excess of 160 000 customers. Trustco Bank will continue with financial inclusion initiatives by providing banking services to the previously unbanked population.

BANKING AND FINANCE SEGMENT



SME LOANS ADVANCE COMMERCIAL DEVELOPMENT

A loan from Trustco Bank has breathed second life into a local wood business. Namzam Timbers has been a steadfast and preferred supplier of construction wood to the Namibian market since 1993. Trustco Bank played a key role in servicing the new owner with a commercial SME loan. The Okahandja based team is a great example of how consistency has been rewarded with longevity.

The experienced artisans are positioned to teach their management in every step of the business. They continue developing with nothing more than shelves and floorspace filled with all shapes and sizes of wood. Namzam manufactures pallets, shelving, picket fencing and supplies material for roof construction and a variety of shutter board, OBS and Rhino board.

They are a preferred supplier for wooden DIY product projects.



OKAHANDJA: Namzam Timbers have been servicing the building industry since 1993



SME LOANS ADVANCE COMMERCIAL DEVELOPMENT

When cash flow hampered much needed workshop expansion for Immanuel Shaduka, he found the perfect financial partner in Trustco Bank. Even though he is based in the rural northern town of Outapi, in Namibia, he built his panel beating, car wash, welding, tyre repair and mechanic business to provide top class service. A SME loan added wheel balancing to his offering, saving him on outsourcing costs and precious time by bringing the service in-house.



OUTAPI: Immanuel Shaduka at his newly acquired wheel alignment equipment

During this reporting period, Trustco Bank continued with further system implementation. In addition to the Finastra (previously owned by D + H) Phoenix core banking system, Trustco Bank also completed implementation of Know Your Customer (KYC), Anti Money Laundering (AML), Financial Intelligence Centre (FIC) reporting and Document Management Service (DMS) modules. A significant amount of time was spent on the implementation of the PSD-7 BoN compliance project that relates to the new enhanced electronic funds transfer services, which the industry expects to reach full compliance by end of 2018.

Trustco Bank also initiated a number of internal projects such as launching cell phone banking, online banking, notification and SMS services, as well as a phased approach on card management service channels.

The loan products on offer include:

- SME loans, offered in two forms, namely:
 - Individual business loans or
 - Group loans (known as ELO loans), where loans are offered to a group of people with 7 or more members, similar to a stokvel. The members individually apply for a facility and make repayments and contributions collectively. All members of such a group also remain jointly responsible for the repayment of the loan.
- Invoice discounting / factoring - This product is designed to afford cash flow acceleration against the security of the client's debtor book, unlocking the potential to grow the business even further.
- Personal loans - This product is aimed at private individuals and offers a NAD 50 000 loan over a maximum term of 5 years. Trustco Bank further secures the loan with a credit life policy.
- Mortgage loans, offered in two forms, namely:
 - Zoned residential and
 - Building loans.
- Property loans - Loans are disbursed against commercially zoned properties, e.g. offices, warehousing or light industrial properties principally in the Lafrenz industrial area.

Trustco Bank has obtained regulatory approval to embark upon the next phase of its growth strategy to join and participate in the national clearing and settlement system. All domestic transactions are routed through Namclear, the national switch. Trustco Bank has also joined the Real Time Gross Settlement System (RTGS) for high value transactions. Trustco Bank is in the process of applying for its authorised Dealers Licence which will facilitate foreign exchange transactions, via the SWIFT network. With the completion of the EFT and CMS system, international card transactions will route via the VISA network. Trustco Bank is poised to expand business and fulfil its business and growth strategy.

Trustco Bank's aim for the next reporting period is to convert all clients to Trustco Bank cardholders and to provide them with easy electronic banking facilities. In addition to these basic services, the bank will also provide value added services with different vendors to allow purchases such as airtime and electricity etc.

BANKING AND FINANCE SEGMENT



TARGET MARKET NAD

35

THOUSAND PER MONTH



ADVANTAGES

Trustco Bank assists qualifying first time buyers with 100% loans to realise their dreams of owning a home.

The growth in the home and property loan book of Trustco Bank can contribute significantly to the property developments of the group, e.g. Trustco Bank has representation at each development phase and has the first opportunity to assist potential clients with a home loan.

A key opportunity is the estimated 180 000 shortage of houses in Namibia and the fact that the group's property developments, Elisenheim and Ondangwa, are affordably priced to cater for this shortage.

Trustco Bank provides building loans as home financing solutions which enables clients to build new homes, i.e. the mortgage amount is disbursed in phases against the completion of the building project. The percentage of financial assistance from Trustco Bank depends on whether a client is a first or second time buyer. Trustco Bank will assist qualifying first time buyers with a 100% loan to realise their dreams of owning a home.

Trustco Bank, working together with Trustco Properties and Trustco Insurance, recently launched the Ombala Estate at Ondangwa, in the far north of Namibia. Ombala Estate is centrally located in Ondangwa with fully serviced plots adjacent to tarred roads. The Ombala Estate does not only boast land demarcated for single residential, business and commercial units, but also contribute to economic development and growth of the region with its light industrial offering.

The serviced stands at Ombala Estate range from 304 to 597 square metres for single residential stands, while general residential stands vary from 2 292 to 3 298 square metres and light industrial stands between 1 190 to 1 981 square metres.

The Ombala project is proof of the commitment of Trustco Bank to provide affordable housing in Namibia, with one third of the Ombala project already sold to date. A large portion of the applicants are government employees, receiving grants or a subsidy from their employer. Trustco Bank was able to assist employees with guaranteed government payroll deductions, with tailor made home loan facilities. The target market of the far northern region are applicants with a joint income of approximately NAD 35 000 per month. The average selling price for a plot and plan is below NAD 1 million.



50 year old Selma Shigwedha, from Oshitaya, became the first official resident of Ombala after purchasing her 306 square meters stand

BANKING AND FINANCE SEGMENT

RISK MANAGEMENT

The implementation of the King IV corporate governance report (King IV) has seen certain changes in the corporate world. Trustco Bank subscribes to the principles of the King IV. Trustco Bank's corporate governance framework includes the BoN regulations, the NamCode, the Banking Act and the Namibian Companies Act. The board retains ultimate responsibility for ensuring that risks are adequately identified and that Trustco Bank's strategy is properly driven and executed. For more information on Trustco Bank's corporate governance, please refer to the corporate governance section in this report.

Trustco Bank remains committed to engaging at all possible levels with the Namibian Government and various industry forums to promote the national interest, especially on economic and social fronts. An illustration of the commitment towards the national Harambee Prosperity Plan is Trustco Bank's contribution towards the launch of the Ombala housing project in the far north.

Trustco Bank will continue to enhance its relationship with its various regulators in order to ensure full compliance at all times. Trustco Bank's vision is to assist to build a better Namibia and to live by its motto to be a "Bank of Note". Continuous change in the regulatory environment will have an effect on the way the bank does business in future. New regulations tend to fundamentally change the way in which business is conducted and Trustco Bank is committed to adapt to any change in order to contribute to providing positive results.

GLIMPSE IN THE FUTURE

The bank is excited about the recent establishment of an investment product which will in future allow clients to invest in a unit trust. A key part of the strategy of Trustco Bank is to expand its retail capacity in order to attract a much broader base of deposits.

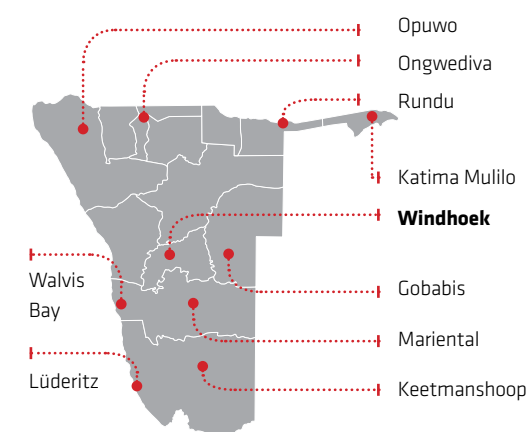
The strategy of Trustco Bank is also to use internet and cell phone banking to broaden its service offering rather than broadening the branch networks, thereby leveraging technology to have a cost efficient route to market while the scale of the institution grows in a sustainable manner.

➤ **TRUSTCO BANK'S VISION IS TO ASSIST TO BUILD A BETTER NAMIBIA AND TO LIVE BY ITS MOTTO TO BE A "BANK OF NOTE"**

BANKING AND FINANCE SEGMENT

TRUSTCO FINANCE

REGIONAL FOOTPRINT



Trustco Finance (Pty) Ltd (Trustco Finance) was acquired during 2005 and for the past 13 years has grown to become the preferred educational loan provider in Namibia.

What makes the division stand out in the industry is its unique business model. Trustco Finance provides 100% financing for all courses offered by the Institute for Open Learning (Pty) Ltd (IOL), which primarily includes tailor made academic courses, the latest Information and Communication Technology (ICT) products and courses, as well as various other short courses. Market research and feasibility studies conducted highlighted that financing, especially for education, proved not only a significant obstacle faced by many individuals, but an insurmountable impediment. Trustco Finance tapped into this market gap by providing direct access to educational funding. The financial intervention platform created by Trustco Finance has enabled existing, prospective and previously excluded students the opportunity to enrol in courses, which now give them the ability to increase their core competencies and socio economic opportunities.

The resounding upward trend in growth has not been all smooth sailing as Trustco Finance has faced obstacles, yet continues to thrive, and has built an admirable reputation as a result. Trustco Finance boasts a current total loan portfolio exceeding NAD 665 million, with non-performing loans (NPL's) at an average of 5% (five percent) during the past 5 years.

FOOTPRINT AND IMPACT

Trustco Finance has an excellent regional footprint with well established local offices in regions throughout the country, primarily rural areas, where almost 80% of the client base resides. Currently, Trustco Finance has 8 regional offices, which includes the head office, and envisages opening two 2 additional satellite offices before March 2019.

Trustco Finance currently has 42 612 active account holders of which fifty percent are females.

OPERATIONAL STRENGTHS

Trustco Finance ensures that only the best business practices are followed in all its in-house policies for onboarding new clients, the majority of which are employed by the government. An existing deduction code, which was issued by the Ministry of Finance, makes provision for direct salary deductions, making it the most secure form for repayments of loans. Avril Payment Solutions (Pty) Ltd is the system used to effectively manage this process. Trustco Finance also has set salary deduction agreements in place with a number of private and parastatal entities to ensure secured repayments on its loan portfolio. The smallest portion of the loan portfolio consists of debit order deductions through Realpay or other prominent commercial banks in Namibia, currently this is not a preferred method of repayment. This method of payment may change in the near future with the introduction of a new debit order system nationwide.

NAMFISA, the regulatory body for Trustco Finance in Namibia, conducts regular onsite inspections and an independent corporate governance and Financial Intelligence Act (FIA) review to ensure compliance of the entity with all related laws, standards and best business practices. Trustco Finance complies with all changes effected in the lending industry, be it changes made by NAMFISA or any other legislative changes.

GLIMPSE INTO THE FUTURE

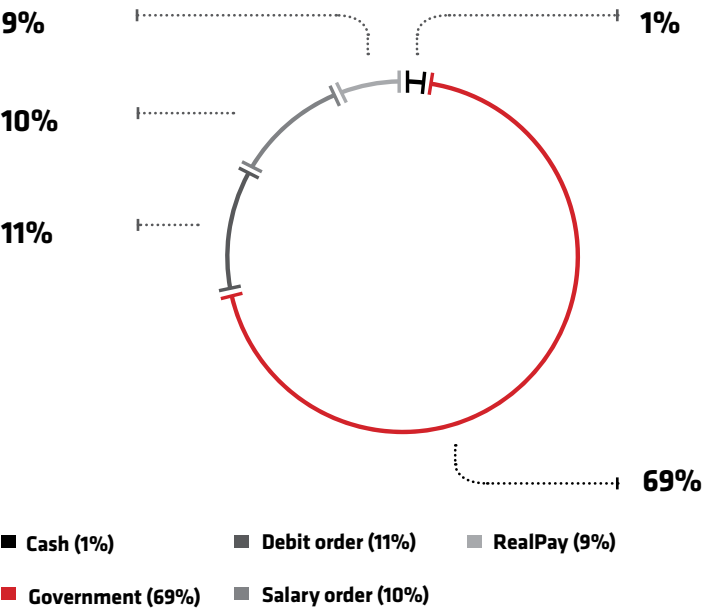
With the ever growing need for educational financing, the development team of Trustco Finance is tasked to provide a smartphone application which will provide a user friendly interface where existing clients can view account statements or any related information.

➤ **TRUSTCO FINANCE PROVIDES 100%**

financing for all courses offered by IOL.

BANKING AND FINANCE SEGMENT

LOAN REPAYMENT METHODS



Trustco Finance’s existing collections department has created additional capacity to keep the average NPL’s at 5% for the past 5 years.

The division is currently busy implementing a robotics system, which will allow any repetitive back office work to be automated. This will enable employees to focus on more productive matters such as increased valued customer service and brand marketing.

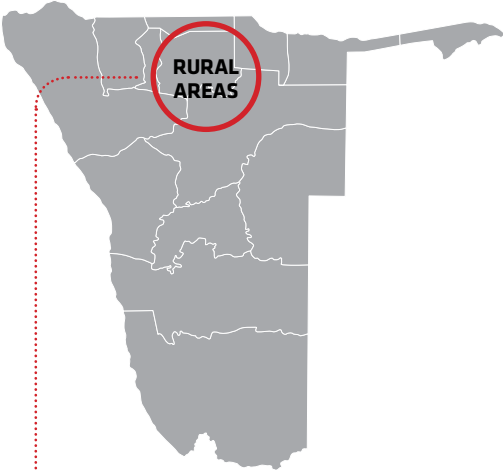
Trustco Finance has committed to a growth initiative amongst its government client database, which is currently 69% of the total loan portfolio, with a target of 11% growth for the 2018/2019 financial year by:

- increasing the portfolio to reach NAD 1 billion during the next 18 months
- with an increased footprint to work towards increasing the overall client database to 60 000 and
- specific focus on attracting more female borrowers in rural areas, to further promote education of this demographic.

The division further intends to introduce a financial literacy initiative through social media and Trustco’s local newspaper, *Informanté*, to inform and educate all Namibians of the importance of budgeting, saving and personal financial management.

With all these initiatives Trustco Finance strives to increase revenue, set a new benchmark for customer service, ensure overall operational growth and the sustainability of stakeholder investments.

Given the enormous need for training and education in Namibia, Trustco Finance has been unable to source the level of long term capital required from local banks. Trustco has, however, enjoyed the support of various Development Finance Investors (DFI’s), such as AfDB, DEG, responsAbility, Symbiotics, Blue Orchard, Proparco, DBN and other prominent funders, who have been able to provide local currency funding. The rates and terms offered by these funders have set a reasonable benchmark against which to measure other international sources of funding. Trustco Finance is constantly in the process of sourcing external funding to satisfy the huge demand by local students for training programs offered by IOL.



APPROXIMATELY
80%
OF TRUSTCO FINANCE’S
CLIENT BASE

are based in the rural areas.

BANKING AND FINANCE SEGMENT

TRUSTCO CAPITAL

Trustco Capital (Pty) Ltd (Trustco Capital) provides long term finance in the form of property advances. Trustco Capital also hosts the trademarks for some of the group’s operations, together with other software intangible assets which are licenced to subsidiaries in the group. The main contributor to income is interest received from the sale of land. Currently total advances in this company relates to land sales at Elisenheim and Lafrenz to the value of NAD 1.1 billion.

COMPETITOR ADVANTAGE

The banking and finance segment has the advantage of expanding on the service offering of an established client base within the group. This expansion of services will take place within the normal regulatory framework.

GROUP SYNERGIES

Significant synergies exist between the banking and finance segment and other group subsidiaries, mainly in the form of insurance cover and property finance.

TRUSTCO PROPERTY

The banking and finance segment provides mortgage loans for the clients of Elisenheim, Ondangwa and Lafrenz. Some buyers make use of external development companies and contractors and Trustco Bank provides the mortgages to these clients, leveraging off the fact that it has representation at the sales offices. A target market is government employees that currently constitute about 40% of the loan book. Mortgage repayments from government employees are payroll deducted at source, providing further security. The government provides subsidies to borrowers depending on a tiered scale according to the job of an employee. In addition, the government guarantees 20% of the loan amount.

TRUSTCO LIFE

The banking and finance segment also benefits from the group’s insurance subsidiary, Trustco Life. Trustco Bank has introduced a number of new clients during the past year which resulted in an increase in non-interest revenue. The insurance offering provides essential protection to the client, and in turn, adds to the premium income of Trustco Life. In other words, the provision of credit insurance benefits both Trustco Finance from the premium side and Trustco Bank in the event of clients defaulting on their loans. Trustco Bank can also initiate the provision of home and fire insurance, the latter which is compulsory, although clients have a choice of providers.

IOL

The banking and finance segment expects to support its SME loan business through IOL. IOL has a Vocational Training Centre for courses including plumbing, pipefitting, bricklaying and plastering. Trustco Bank plans to provide loans to individuals who wish to start their own small businesses in these particular trades, subject to the appropriate vocational training. In the event that computer hardware is required, Trustco Bank can provide financing and obtain security until the loans are fully paid off.

BANKING AND FINANCE SEGMENT

BANKING AND FINANCE SEGMENT



SEGMENT EXCO (f.l.t.r): Malcolm Petersen (COO: Trustco Finance), Angus Claassen (COO: Trustco Finance), Beatha Shitemba (Manager: Risk & Compliance Trustco Bank), Nelao Hitula (COO: Operations & Branches Trustco Bank), Jan Coetzee (COO: Banking & Finance Technology), Thomas Slabbert (Head: Banking & Finance), Anneke Hansen (Trustco Bank Credit Manager), Riaan Bruyns (Deputy CEO: Trustco Bank) and Adri Lambert (Head: Trustco Finance)