

Trustco Group Holdings Limited

Namibia Financial Institution Analysis

August 2018

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long-term	National	LD _(NA)	n.a.	n.a.
Short-term	National	LD _(NA)		

Financial data:

(USD'm comparative)

	31/03/17	31/03/18
NAD*/USD (avg.)	14.07	13.00
NAD*/USD (close)	13.41	11.83
Total assets	388.9	538.7
Total capital	185.9	352.2
Borrowings	124.5	112.6
Net advances	135.6	148.3
Liquid assets	3.4	5.8
Total income*	104.6	98.6
Profit after tax	37.7	21.0

Market cap.^ ZAR10.2bn/USD692.9m

Market share n.a.

* Namibian Dollar, which is pegged to the South African Rand (ZAR) at 1:1.

* Before cost of sales.

^ Relates to Trustco's Johannesburg Stock Exchange listing. Valuation on 31 August 2018 (ZAR/USD 14.72).

Rating history:

Initial rating (July 2012)

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

Rating outlook: Stable

Last rating (July 2017)

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

Rating outlook: Stable

Related methodologies/research:

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

Trustco rating reports (2012-17)

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Summary rating rationale

- The ratings accorded to Trustco Group Holdings Limited, (“Trustco”, “the group”) reflect an agreed creditor standstill by Trustco and its key funding partners, under which we understand that there have been two non-payments of originally contracted principal. Positively, the group continues to service its interest in line with the original contracts.
- Under our rating definitions, a limited default (LD) occurs when an obligor has failed to meet scheduled payments and/ or interest payments on one or more of its obligations. Whilst we understand that the request for the restructuring was initiated by Trustco before the payment obligations were due and that all the funders of the group agreed to the restructuring, fundamentally the terms of the credit standstill require that no principal payments (against the original terms of the contract) will be made until the restructuring is complete-regardless of whether the funds are available at the time. We are led to believe that the restructuring process will be concluded towards the end of 2018, but will monitor the progress regularly.
- Whilst we expect the renegotiations to be successful, due to strong funder buy in to the process, we also believe that there may be some further non-payment of principal during the restructuring period. Post the restructuring or upon evidence that there will be no more non-payment of principal, we will be able to lift the ratings to a non-default grade.
- The credit standstill appears to have resulted from a desire by the group to restructure its complicated funding structure following a breach of some key covenants in 2017, which resulted in a material shortening of the funding profile by the end of that year. There was also a material reduction in profitability and cash flow during the year, all of which has placed undue strain on the groups liquidity. However, we are led to believe that due to the partial sale of one of the subsidiaries, the current liquidity situation of the entity is adequate.

Factors that could trigger a rating action may include

Positive change: Upside rating movement will likely follow the successful restructuring of debt and repayment of principal on schedule.

Negative change: A general non-payment of both interest principal will result in negative rating action.

Trustco Group Holdings Limited

(Namibian Dollars in millions except as noted)

Year end: 31 March	2014	2015	2016	2017	2018
Income Statement					
Insurance premium revenue	225.1	180.7	192.8	153.7	133.2
Broker commissions and fees	24.9	0.0	0.0	0.0	
Microfinance income (interest and fees)	100.7	119.2	142.6	160.2	148.8
Education (tuition fees and related income)	144.6	136.1	155.5	80.1	52.7
Investment income	3.1	6.4	3.7	0.4	9.4
Other income	41.8	105.4	56.6	113.2	307.1
Total annuity type income	540.2	547.8	551.2	507.7	651.2
Realised fair value gains	306.3	502.1	620.9	770.0	166.8
Unrealised fair value gains	120.4	103.3	131.3	194.5	463.8
Total income before cost of sales	966.9	1,153.2	1,303.5	1,472.2	1,281.7
Cost of sales	(172.0)	(204.6)	(272.8)	(208.9)	(274.3)
Total income after cost of sales	794.9	948.6	1,030.6	1,263.3	1,007.5
Administrative expenses	(343.5)	(354.9)	(354.2)	(405.4)	(495.0)
Depreciation and amortisation	(39.0)	(49.2)	(46.4)	(54.5)	(47.5)
Insurance benefits and claims	(33.1)	(36.3)	(38.0)	(32.5)	(7.1)
Transfer to policyholder liabilities	(21.9)	(6.3)	(7.9)	(15.8)	(27.3)
Change in unearned premium provision	-	-	-	-	-
Finance charges	(57.1)	(105.5)	(134.3)	(173.7)	(188.9)
Profit before tax	300.3	396.4	449.9	581.5	241.7
Taxation charge	(47.6)	(93.2)	(30.1)	(51.5)	32.0
Profit after tax	252.7	303.2	419.8	530.0	273.6
Dividends paid	(15.4)	(40.8)	(49.4)	(33.1)	0.0
Retained earnings	237.3	262.4	370.4	496.9	273.6
Cash Flow Statement					
Cash generated by operations	343.1	448.1	507.4	651.3	33.0
Working capital (increase)/decrease	(159.6)	(276.9)	(65.0)	(219.3)	(53.7)
Net loans advanced	(278.4)	(98.3)	(375.6)	(642.6)	47.3
Proceeds from funding for Educational advances	240.0	220.0	76.3	308.8	-128.6
Net interest/dividends received	3.1	6.4	3.7	0.4	9.4
Finance costs	(57.1)	(105.5)	(134.3)	(170.5)	(188.9)
Taxation paid	(16.1)	(25.0)	(7.8)	(0.9)	(36.3)
Net cash flow from operations	75.0	168.8	4.7	(72.6)	(317.8)
Dividends paid - Ordinary shares	(15.4)	(40.8)	(49.4)	(33.1)	0.0
Net cash retained	59.6	128.0	(44.7)	(105.7)	(317.8)
Acquisitions/Additions to assets	(28.6)	(20.3)	(155.3)	(96.1)	(451.3)
Proceeds on sale of assets/investments	7.2	12.3	14.6	44.1	11.7
Net investment (cost)/proceeds	(21.4)	(8.0)	(140.7)	(52.0)	(439.6)
Other net investment proceeds	0.0	(0.5)	0.0	0.0	
Shares issued/(redeemed)	(39.2)	45.7	244.4	0.0	
Net cash available/(consumed)	(1.0)	165.2	59.0	(157.7)	(757.4)
Borrowings raised/(repaid)	86.3	(193.1)	(80.1)	108.5	792.9
Net increase/(decrease) in cash and cash equivalents	85.3	(27.9)	(21.1)	(49.2)	35.6
Balance Sheet					
Ordinary share capital	1,224.4	1,550.2	2,189.1	2,492.4	3,728.3
Minority interest	0.0	0.0	0.0	<0.1	438.0
Total shareholders' interest	1,224.4	1,550.2	2,189.1	2,492.5	4,166.2
Total interest-bearing debt	730.4	1,060.6	1,121.9	1,670.1	1,332.6
Policyholders liability under insurance contracts	38.5	44.8	52.8	68.6	63.1
Income tax liabilities	216.3	312.4	339.4	336.7	308.5
Accounts payable	32.1	78.9	215.8	589.2	430.3
Other liabilities	232.8	112.2	95.0	111.1	71.8
Total liabilities & equity	2,474.5	3,159.1	4,014.0	5,268.1	6,372.4
Fixed assets	203.1	269.3	459.3	609.4	591.5
Intangible assets	212.4	197.6	209.8	526.8	462.5
Advances	700.0	807.0	1,184.1	1,818.8	1,754.1
Investment property	537.3	708.8	816.2	1,010.8	1,476.8
Receivables	230.8	574.4	765.9	762.2	684.8
Cash and cash equivalents	131.6	118.7	99.8	46.0	68.9
Other assets	459.3	483.3	478.8	441.5	1,333.7
Total assets	2,474.5	3,159.1	4,014.0	5,215.6	6,372.4
Ratios					
EBITDA (NADm)	396.4	551.1	630.6	809.6	478.0
Cash flow:					
Operating cash flow : Interest bearing debt (%)	10.3	15.9	0.4	(4.3)	(23.8)
Profitability:					
Annuity income growth (%)	5.9	1.4	0.6	(7.9)	28.3
Total income growth (%)	51.7	19.3	13.0	12.9	(12.9)
EBITDA : revenues (%)	41.0	47.8	48.4	55.0	37.3
Operating profit margin (%)	31.1	34.4	34.5	39.5	18.9
EBITDA : average total assets (%)	19.8	19.6	17.6	17.5	8.3
Cost to income (%)	43.2	37.4	34.4	32.1	49.1
Effective tax rate (%)	15.9	23.5	6.7	8.9	(13.2)
Return on equity (%)	23.1	21.9	22.5	22.6	8.2
Return on assets (%)	12.6	10.8	11.7	11.5	4.7
Coverage:					
Dividend cover	16.4	7.4	8.5	16.0	n.a
Gross interest cover (x)	6.3	4.8	4.4	4.3	2.3
Net interest cover (x)	6.2	4.7	4.3	4.3	2.2
Liquidity:					
Current ratio (:1)	1.4	3.6	2.8	1.2	1.5
Capitalisation:					
Equity : total assets (%)	49.5	49.1	54.5	47.3	65.4
Retention rate (%)	93.9	86.5	88.2	93.8	100.0
Leverage:					
Total debt : equity (%)	59.7	68.4	51.3	67.0	32.0
Net debt : equity (%)	48.9	60.8	46.7	65.2	30.3
Total debt : EBITDA (%)	184.3	192.5	177.9	206.3	278.8
Net debt : EBITDA (%)	151.1	170.9	162.1	200.6	264.3
Loan to value					
Total debt : properties (%)	135.9	149.6	137.5	165.2	90.2
Net debt : properties (%)	111.4	132.9	125.2	160.7	85.6
Total debt : properties & student advances (%)	59.0	70.0	56.1	59.0	41.2
Net debt : properties & student advances (%)	48.4	62.1	51.1	57.4	39.1

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

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.
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.
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 Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
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.
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.
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.
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.
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.
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.
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.
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.
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.
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-'.
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.
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.
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 Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account (including taxes).
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.
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.
Political Risk	The risk associated with investing and operating in a country where political changes may have a negative impact on earnings or returns.
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.
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.
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.
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.
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.
Under Review	Failure to carry out a full review of a rated entity within the designated timeframe, either through lack of information or delays in finalisation, i.e. review is ongoing.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.

For a detailed glossary of terms please click [here](#)

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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 2018;
- 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.

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