

# Financial Reporting as an Investment Entity

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**TRUSTCO**<sub>3.0</sub>  
*investing excellence*

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# IFRS 10

## Exception to consolidation

IFRS 10 is an international financial reporting standard that sets out the guidelines for the preparation and presentation of consolidated financial statements. Its primary purpose is to provide a comprehensive framework for identifying and reporting on a company's control of an subsidiary, and for determining the appropriate consolidation treatment of that subsidiary in the financial statements of the investor.

Under IFRS 10, investment entities are exempted from the requirement to consolidate their subsidiaries, and instead, are required to measure their investments in subsidiaries at fair value through profit or loss.

This consolidation exception applies only if an entity meets the definition of an investment entity and it measures substantially all its subsidiaries at fair value through profit or loss, or they are themselves subsidiaries of an investment entity.

**“...an investment entity shall not consolidate its subsidiaries or apply IFRS 3 when it obtains control of another entity. Instead, an investment entity shall measure an investment in a subsidiary at fair value through profit or loss...”**

**- IFRS 10, paragraph 32**

# IFRS 10

## Investment Entity

The rationale behind the consolidation exception is that investment entities primarily invest in companies for the purpose of generating returns from capital appreciation and investment income, rather than for control or strategic purposes. Consolidation may not be relevant for investment entities as their objective is to hold and manage investments rather than to manage the performance of the underlying businesses.

Trustco and the Trustco Investment Ecosystem:

- a) Received funds from multiple investors to invest
- b) Trustco's business purpose is sustainable, medium- to long-term wealth creation through capital appreciation and investment income for our stakeholders
- c) Measures and evaluates the performance of its investments on a fair value basis.

“A parent shall determine whether it is an investment entity. An investment entity is an entity that:

- (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.”

- IFRS 10, paragraph 27

# IFRS 10 & 13

## Fair Value

IFRS 10 requires investment entities to measure their investments at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date..

The market participant perspective is a key concept in fair value measurement as per IFRS 13. It involves determining the fair value of an asset or liability based on the assumptions that market participants would use when pricing the asset or liability, taking into account any differences between the assumptions of market participants and the entity's own assumptions.

Trustco's valuations were predominantly done via the income approach, with differing discount rates relative to the portfolio companies' activities, all applied from a market participant's perspective, unless a market price was available.

**“Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.”**

**- IFRS 13, paragraph 24**



# IFRS 10 transition: From consolidation to investment entity

## Three (simplified) Steps:

- 1. Derecognize previously consolidated assets and liabilities as a deemed disposal:** When an entity becomes an investment entity, it needs to derecognize any previously consolidated subsidiaries as a deemed disposal. This means that the assets and liabilities of the subsidiaries are removed from the investment entity's financial statements and any gains or losses from the deemed disposal are recognized in the income statement.
- 2. Recognize investment subsidiaries at fair value through gains on deemed disposal of subsidiaries:** After derecognizing the previously consolidated subsidiaries, the investment entity recognizes them as investments at fair value through the gains on the deemed disposal of the subsidiaries. This means that the investment entity will recognize any unrealized gains or losses from the fair value changes of the investments in its income statement.
- 3. Revalue investments to fair value at year-end:** The investment entity must revalue its investments to fair value at each year-end. This means that the entity must assess whether there are any changes in the fair value of its investments and recognize any gains or losses in its income statement. The fair value measurement should be consistent with the fair value hierarchy and market participant perspective outlined in IFRS 13.

# IFRS 10 transition

## Statement of Financial Position

AS AT		2022	2021
FIGURES IN NAMIBIA DOLLAR MILLION		31 AUGUST	31 AUGUST RESTATED
	NOTES		
<b>ASSETS</b>			
CASH AND CASH EQUIVALENTS	2	8	23
ADVANCES	3	-	489
TRADE AND OTHER RECEIVABLES	4	65	163
AMOUNT DUE BY INVESTEE ENTITY	5	616	-
CURRENT TAX ASSETS		1	2
ASSETS HELD FOR SALE		-	-
INVENTORIES	6	-	528
PROPERTY, PLANT AND EQUIPMENT	7	14	315
INVESTMENT PROPERTY	8	-	1 531
INTANGIBLE ASSETS	9	-	362
EVALUATION AND EXPLORATION ASSETS	10	-	416
MINE PROPERTIES	11	-	671
INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	12	3 632	-
DEFERRED TAX ASSETS	13	4	47
<b>TOTAL ASSETS</b>		<b>4 340</b>	<b>4 547</b>

Derecognize previously consolidated assets and liabilities

Recognize investment subsidiaries at fair value

# IFRS 10 transition

## Statement of Profit or loss

FIGURES IN NAMIBIA DOLLAR MILLION	NOTES	12 MONTHS ENDED 31 AUGUST 2022
INTEREST REVENUE	23	26
FAIR VALUE LOSS ON INVESTMENTS	12	(1 713)
<b>TOTAL INVESTMENT REVENUE</b>		<b>(1 687)</b>
OTHER REVENUE	23	23
COST OF SALES		-
<b>GROSS (LOSS)/PROFIT</b>		<b>(1 664)</b>
OTHER INCOME	24	-
FAIR VALUE LOSS ON INVESTMENT PROPERTY	8	-
GAIN ON DEEMED DISPOSAL OF SUBSIDIARIES	25	3 360
OPERATING EXPENSES	26	(135)
INSURANCE BENEFITS AND CLAIMS		-
FINANCE COSTS	27	(124)
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>1 437</b>
INCOME TAX EXPENSE	28	-
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>1 437</b>

Revalue investment to fair value at year-end

Recognize investment subsidiaries at fair value through gains on deemed disposal of subsidiaries



# Changes to Investments

FIGURES IN NAMIBIA DOLLAR MILLIONS

	CARRYING AMOUNT 31 AUGUST 2021	NET GAIN /(LOSS) ON DEEMED DISPOSAL AND REACQUISITION	FAIR VALUE 1 SEPTEMBER 2021	FAIR VALUE GAIN /(LOSS)	FAIR VALUE 31 AUGUST 2022
TBN HOLDINGS LTD	(440)	678	238	38	276
TRUSTCO BANK NAMIBIA LTD	(84)	98	14	(5)	9
LEGAL SHIELD HOLDINGS LTD*	1 611	673	2 284	(306)	1 978
TRUSTCO MOBILE MAURITIUS	9	28	37	(2)	35
TRUSTCO GROUP INTERNATIONAL (PTY) LTD	47	(29)	18	(4)	14
TRUSTCO BUSINESS DEVELOPMENTS (PTY) LTD#	842	1 912	2 754	(1 434)	1 320
<b>VALUE OF PORTFOLIOS</b>	<b>1 985</b>	<b>3 360</b>	<b>5 345</b>	<b>(1 713)</b>	<b>3 632</b>
NAMIBIA	1 064	1 766	2 830	(247)	2 583
SIERRA LEONE	921	1 594	2 515	(1 466)	1 049
<b>VALUE OF PORTFOLIOS</b>	<b>1 985</b>	<b>3 360</b>	<b>5 345</b>	<b>(1 713)</b>	<b>3 632</b>

Recognize investment subsidiaries at fair value through gains on deemed disposal of subsidiaries

Revalue investment to fair value at year-end

“In investing, what is comfortable is rarely profitable.”

- Robert Arnott

# Thank you!

Questions?