

INVESTMENT CASE AND VALUE CREATION

INVESTMENT PROFILE AND OUTLOOK

Trustco Group was founded on 21 August 1992, and this financial year saw its 30th birthday. Trustco Group has always operated as a majority family owned investment entity, with a focus on generating medium to long term sustainable growth and value for all stakeholders. It holds three listings – the Namibian and Johannesburg Stock exchanges as well as the OTCQX in New York.

The group has managed a compounded annual growth rate (CAGR) of 74.6% in capital and reserves from its inception, and 22.8% since its first public listing on the NSX in 2006. With a presence in four African countries, and more than NAD 4.3 billion in assets under management, the group presents a strong investment opportunity currently trading at a significant discount to its Net Asset Value.

From Trustco's headquarters in Windhoek, Namibia, this investment holding entity manages investments in a financial services portfolio, which covers investments in banking and financing, insurance, education and real estate, as well as its resources portfolio, with its high profile international investment being Meya Mining Ltd in Sierra Leone. Both portfolios make use of support services provided by the group's shared services subsidiaries.

Substantial growth in the Namibian economy is still lacking, although high profile prospects like a significant oil reserve discovery and green hydrogen projects hint at growth prospects returning. At the time of reporting, however, the negative situation in Europe had escalated, with many knock on effects to the local economy. As a result, inflation has increased with monetary policy contractions already experienced and expected to become worse.

With effect from 1 September 2021,

Trustco Group, in consultation with its professional advisors, concluded that it comply with the exception to IFRS 10 International Financial Reporting Standards), whereby investment entities are exempted from consolidation.

Trustco had partly commenced with this transition in 2017, when it first sold a minority stake in part of its financial services portfolio. As a result, the group transitioned from only managing fully owned and operated businesses, to evaluating each business portfolio for its investment returns to shareholders instead. Trustco's change in its business purpose from a permanent investor to a medium-to-long term investor is aligned with the change in strategic direction of the company which has been implemented with effect from September 2021.

Trustco's strategic direction of value creation through capital appreciation, investment income or both is defined in accordance with its formalised investment policy and investment charter, as adopted by the board of directors in September 2021 and directed by the investment committee. Trustco formalised exit strategies for its debt and equity instrument further align with its investment strategies to create value through capital appreciation, investment income or both.

This has resulted in Trustco as an entity having to value its portfolio of investments in terms of IFRS 13. 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.

Trustco, however, continues to consolidate its shared services subsidiaries. These entities provide investment related support services to Trustco's investment portfolios on a cost recovery basis.

Trustco Group reported a profit for the year

ended 31 August 2022 of NAD 1 437 million. For the year ended 31 August 2022, the group reported basic earnings of 145.9c per share, and headline loss of (195.1c) per share.

THE TRUSTCO ADVANTAGE

Over the last 30 years, Trustco has coinvested in a stable of Namibian investments that have formed part of the backbone of Namibia's economy. These investments have curated a large customer base that synergistically enable superior returns by being accessible across multiple investee companies within the financial services portfolio. By enabling a local decision-making structure in its investment portfolios, time-to-execution in every investment is minimised, allowing opportunities to be seized quickly. This has extended into the group's other portfolios as the group has coinvested in them. Trustco thus focuses on identifying and coinvesting in companies that have the potential for medium- to long-term value creation and superior returns.

Trustco currently coinvests in two broad investment portfolios, namely Financial Services and Resources.

REVIEW OF INVESTMENTS

TRUSTCO'S FINANCIAL SERVICES PORTFOLIO AS AT 31 AUGUST 2022

Trustco's financial services portfolio is an integrated financial services provider which has successfully operated in Namibia for the past 22 years. Since inception, it has been the key driver of Trustco Group's returns for its investors and business partners, but in the last year has had to weather the perfect storm of adverse economic conditions and its subsequent consequences.

Through bold, decisive and innovative action, financial services have remained resilient and positioned itself and its world class assets to execute the new opportunities that present themselves in the modern world. Financial services provide a full spectrum of modern and dynamic financial services to the growing middle class of Namibia. The portfolio will

continue to serve its customers across every stage of life, with a full bouquet of financial services products that can last a lifetime. By harnessing the existing client base and its high-quality portfolio of assets, coupled with exceptional technological capabilities, it ensures sustainable value creation for all.

Financial services comprise of the following investments:

- Insurance and its investments consisting of
 - insurance
 - real estate and
 - education
- Banking and finance consisting of
 - commercial banking and
 - micro-finance.

Trustco's financial services portfolio is diversified, having invested in a range of different financial and ancillary services to mitigate risk and capitalise on growth opportunities. Being part of this portfolio creates an extremely competitive advantage as opportunities always arise to create value for other product ranges in different investees or to access new customers. Across the financial services portfolio, banking, finance and education products lend themselves ideally to enhancement by the insurance product range while the real estate business and the bank also create an unmatched value proposition in Namibia.

The financial services portfolio companies are valued using the income approach, with specific financial services entities discounted by cost of equity, while other ancillary investments in the portfolio, such as education and property developments, are discounted at a weighted average cost of capital, all of which saw an increase during the period under review due to volatility in market conditions.

In the banking and finance, insurance and education investees of financial services however, this increase was counteracted by higher interest rate margins on its underlying cash flow forecasts, as interest rate expectations soared.

INVESTMENT CASE AND VALUE CREATION (CONTINUED)

FINANCIAL SERVICES INVESTEEES REVIEW AS AT 31 AUGUST 2022



► INSURANCE (80% SHAREHOLDING)

- Focused business model refined over many years.
- Market leader in Namibia in legal insurance.
- Large and established customer base in excess of 215 000 insured members.
- Strong solvency position.
- Key competitive advantages through intergroup synergies.
- Prominent level of brand recognition and loyalty.
- Developing innovative products remains its primary trademark.

The insurance investee holds both long- and short-term insurance licences. Through its diversified product offering and by continually adapting to changing market conditions, the insurance investee continues to provide unparalleled service to its loyal client base.

The short-term insurer primarily provides its members with access to high quality legal cover for those who otherwise would not be able to afford legal services, thereby protecting their constitutional rights. The long-term insurer offers funeral benefits, term- and whole-life products as well as access to private health facilities to those

who can't afford a traditional medical aid.

With a variety of savings and investment products, offering above average market returns, the insurer encourages a savings culture and promotes the financial wealth of members and investors. During the last quarter of the period under review, the Trustco Domestic Investment Programme 6a.22 (TDIP6a.22) was launched. The aim of the programme is to raise NAD 50 million for the upliftment of the Namibian society by investing in the educational needs for tertiary students in Namibia. At financial year-end the programme had attracted several investors, investing a total of NAD 15.9 million in the TDIP6a.22. At the date of issue of this annual report the programme had been fully subscribed to the limit of NAD 50 million.

The insurance investee maintained its digital migration process to not only expand its reach, but also ensure future sustainability. Members can interact with the insurer from the comfort of their home via various online platforms.

During the reporting period, the insurance portfolio generated gross premium income of NAD 84.6 million with a claims ratio of 20.68%, maintained a solvency ratio of 24.2% and a CAR ratio of 2 612% for the short- and long-term insurance companies respectively.

More information about Trustco Insurance and Trustco Life is available at: www.legalshield.na and www.life.na



► REAL ESTATE (80% SHAREHOLDING)

- High quality real estate portfolio strategically located in high growth zones.
- Low gearing on property assets.
- Significant returns to shareholders over many years.
- High growth potential due to national serviced land shortages.

The real estate investee maintains its status as one of the largest private property development companies in Namibia. The investee's flagship project, the Elisenheim Lifestyle Estate, has availed more than 1 051 serviced mixed-use erven over a period of 9 years. Upon completion of the development, the real estate investee will avail more than 6 000 mixed use erven. Since inception, the Elisenheim Lifestyle Estate has generated an ROI on EV of 17.16% to its investors.

The four large property developments in the real estate portfolio of the investee include residential estates with scope for commercial development as well as industrial parks. The landbank spans more than 4 000 hectares of the highest quality, strategically located Namibian real estate. It is ideally situated to cater for the present and future housing, commercial and industrial needs of Namibia and will provide a sustainable source of cash flow to the investee and consistent returns to its investors for the next 20 to 25 years.

The mismatch between the supply of developed land and the demand therefor remains the principal factor contributing to the acute shortage of serviced land in the country. During the reporting period, the Namibian economy remained constrained because of the ongoing dominant COVID-19 post pandemic effects which was further exaggerated by commodity price and repo rate increases.

Furthermore, supply chains experienced unprecedented shortages and increased prices fuelled by the ongoing conflict in Europe, Russia and Ukraine.

During the reporting period, the housing market recorded lower than expected sales volumes compared to the corresponding period. The contraction in property sales was fuelled by the rapid rise in the short-lived low interest rate, the unavailability of property development financing, the lack of funding for prospective homeowners as well as uncertainty in the economy which forced a change in consumer behaviour and purchasing power.

At the reporting date:

- Trustco Properties owns an estimated 4 567 hectares of high quality real estate.
- The total land bank creates an opportunity for the provision of over 26 000 mixed use erven.
- Trustco Properties had successfully serviced over 1 106 erven across all developments.
- Revenue generated during the reporting period amounted to over NAD 60 million.
- Trustco Properties owns rental properties valued at NAD 140 million with an occupancy rate of 60% and ROI of 12.5%.

More information about Trustco Properties is available at: www.trustcoproperties.na



► COMMERCIAL BANKING (100% SHAREHOLDING)

- Strong competitive advantages in the local market due to intergroup synergies.
- Alternative low cost business model which enables value creation across the Trustco Group.
- Flexible technology solutions allowing modern and dynamic product development.

INVESTMENT CASE AND VALUE CREATION (CONTINUED)

- Sustainable growth potential.
- Fully Namibian commercial bank.

Trustco Bank is one of only two Namibian owned banks in Namibia. The bank aims to build a bank fit for future generations – one that can easily adapt to rapidly changing social and economic environments.

During the financial year, the bank's non-interest income increased by 94%, which indicates the bank's determination to push boundaries within the existing banking sphere is bearing fruit.

The bank aims to enhance its existing competitive strengths and create new capabilities. The focus areas for the bank are its digital migration strategy, expanding income streams, client-centric product development as well as strategic partnerships and synergies.

Trustco Bank recognises that the future of banking is moving towards a cashless society that requires virtual channels through which clients can transact. The bank is in the process of implementing an innovative technology platform that is based on the latest technology architectures and event-driven microservices. This will enable rapid product development, improved time to market and a single user friendly point of entry to supply value added services to customers quickly and easily. To effortlessly adapt to these changes and achieve the desired growth and expansion in establishing itself in the Namibian market, the bank intends to leverage its position of being a new entrant in the market, together with its current technology partner, by providing a simplified, fintech driven solution to retail banking in Namibia. Using the aforementioned technology will broaden service offerings, enabling the bank to create a cost-effective route to market whilst growing the institution.

More information about Trustco Bank is available at: www.tbn.na



➤ MICRO-FINANCE (100% SHAREHOLDING)

- Business model which perfectly complements the education investee.
- Market leader in tailor made educational lending, enabling personal growth and development.
- Solid and sustainable returns with high growth potential.
- Well established brand with an exemplary record of accomplishments over 17 years.
- Large loan portfolio, with more than 15 000 active account holders.

Trustco Finance is a well-established educational lending business that provides 100% financing on all courses offered by the Institute for Open Learning (IOL). Acquired in 2005 with the aim of better meeting the needs of lower income Namibian consumers, Trustco Finance has made education a viable option for all.

Additionally, negotiations are at an advanced stage to provide financing to other educational institutions in Namibia to target a larger student base. The financing will encompass tuition fees, hostel fees and educational equipment for digital use. These agreements will have a snowball effect on the sister companies as a percentage of the loans will benefit Trustco Life in a form of credit insurance and IOL for the educational tools offered through the institution.

Trustco Finance funds innovative educational courses tailored to add value to its customers' lives and financial wellbeing. These courses encompass a variety of academic, information and communication technology, as well as numerous skills enhancing short courses. With more than 17 years of microlending expertise and an initial loan portfolio of only NAD 5 million, Trustco Finance has grown

from strength to strength to become the preferred student loan financier in Namibia, with a total loan portfolio exceeding NAD 620 million.

Trustco Finance's key focus remains its customers and their needs and has invested in digital offerings and channels to improve customer satisfaction while retaining an individualised touch with the services offered.

The collection performance of Trustco Finance was adversely affected by the ongoing economic downturn prompted by the recession and exacerbated by the COVID-19 pandemic and its post-pandemic effects. As a result, Trustco Finance adopted a COVID-19 relief programme during the reporting period with its primary purpose to provide financial relief to individuals currently faced with financial distress. The programme is ongoing and will be maintained during the next financial year. The company will continue to work closely with its international partners to ensure financing opportunities remain available to support Namibian students.

More information about Trustco Finance is available at: www.trustcofin.na



➤ EDUCATION (100% SHAREHOLDING)

- One of the largest distance private higher education learning institutions in Namibia with more than 62 000 students since establishment.
- Accredited by the Namibia Qualifications Authority (NQA) and registered with the National Council for Higher Education (NCHE) in Namibia.
- All qualifications are registered on the National Qualifications Framework in Namibia.
- Innovative business model that provides access to affordable education and facilitates funding for students in need.
- State of the art academic administration systems and online platforms.
- Environmentally conscious with various implemented green initiatives.
- A proud pioneer of applying action learning.

The education investee through its distance learning model, the Institute for Open Learning (IOL), embraces its vision to commit to excellent, recognised educational

programmes. Since the acquisition of IOL in 2005, with only 2 500 students, IOL has employed technology to radically improve its performance. The institution has reformed and carefully repositioned itself throughout the years to become Namibia's largest private electronic and online institution of higher learning. All IOL courses are offered online which does not restrict the students to a particular location. The capital invested in systems development has enabled IOL to adapt to the changing educational landscape. IOL is a perfect fit for the new paradigm shift, which is the transition to an electronic and exclusively online environment.

IOL focuses on the most relevant environmental, social and governance (ESG) areas which are integrated into its strategic plans and initiatives based on the educational market circumstances, national educational priorities and the expectations of key stakeholders. Students enjoy the freedom and flexibility of studying wherever and whenever it suits them through an easy-to-use intuitive online learning platform. Ongoing quality assurance, continuous assessment processes as well as the monitoring and improvement of the quality of the programmes remain the key areas of focus. The latter is succinctly illustrated by the institution's accreditation status with the NQA, registration with the NCHE as well as its engagement with the broader Namibian community. IOL has a strong belief that the impact of excellent governance, world class practices, and efficient and effective innovative solutions will augment its institutional performance and fortify its ability for a transformed education sector. The institution aims to build a reputation as a recognised global organisation that applies action learning effectively and is known for its educators who change lives and makes an impactful difference.

Through memorandums of understanding with regional quality assurance bodies, IOL is constantly adapting its quality assurance to different regional norms in order to reach students throughout SADC. The institution aims to maximise its revenue by expanding into new markets and adding new educational programmes and services to its current portfolio whilst providing its students with new and creative learning solutions.

In addition to pursuing academic excellence, IOL challenges its students to become remarkable catalysts for change in their communities.

More information about the Institute for Open Learning is available at: www.iol.na

INVESTMENT CASE AND VALUE CREATION (CONTINUED)

TRUSTCO'S RESOURCES PORTFOLIO AS AT 31 AUGUST 2022



➤ TRUSTCO RESOURCES (98.7% SHAREHOLDING)

Trustco Resources was established in 2015 with the strategic intent to diversify Trustco's investment portfolio *via* the natural resources sector. By enabling the group to generate United States Dollar (USD) returns, an internalised hedge was created, to offset macroeconomic factors that might impact the group's traditional markets in Namibia and South Africa in the long run. Whilst the resources mandate is to build a diversified natural resources portfolio, its primary focus currently remains on unlocking and increasing value from its diamond assets.

The resources investee holds and operates two diamond mining assets namely:

- Northern Namibia Development Company (Pty) Ltd - in Namibia
- Meya Mining - in Sierra Leone.

RESOURCES INVESTEEES AS AT 31 AUGUST 2022

As a result of the COVID-19 pandemic, Northern Namibia Development Company (NNDC) has been under care and maintenance since April 2020. Given the prevailing market conditions, both from a capital raising as well as trading perspective, the portfolio's primary objective is to develop Meya Mining's world class diamond deposit in Sierra Leone.



Meya Mining (Meya) is registered in the Republic of Mauritius and holds and operates a diamond mine in the eastern province of Sierra Leone, under a large scale mining licence, ML 02/2019 (the

Meya Project) covering an area of 129.38 km².

Trustco Resources initially held a 65% shareholding in Meya, which was acquired in 2016, but with the transition to commercial production, additional external funding was sourced at the expense of diluting its shareholding to 55.25%.

➤ MEYA MINING (55.25% SHAREHOLDING AS AT 31 AUGUST 2022)

- High grade, high value, primary diamond deposit in Sierra Leone.
- 25 year mining licence issued on 26 July 2019.
- Five of the world's largest stones were discovered from within the immediate surroundings of the licence area.
- Simple and focused business model:
 - underground mining method
 - bespoke processing plant and
 - mine configuration scalable/high margin.
- High barriers to entry:
 - scarcity of high quality primary diamond deposits
 - regulatory requirements and
 - capital intensive.
- High growth potential:
 - the resource results to date only represent 5% of the geo economic potential of the licence area and
 - current mine plan could be replicated across the licence area / increase depletion rate.

Key factors and trends shaping the diamond industry's future:

- Sustainability, transparency and social welfare is an increasing priority for consumers and investors across the value chain.
- Transparent and digitally enabled reporting value chain.
- Desirability- medium and large stones accounting for 80% of global diamond revenue (25% by volume).
- Widening of the global demand and supply gap.

- Provenance and socio economic impact from mine to market.
- Generation Z becoming both a growth engine and a change agent for the industry, with its evolving preferences, purchasing behaviours and sustainability focus.
- Prices for higher quality polished diamonds continuing to outperform lower quality diamonds.
- Diamond producers forming partnerships with midstream players and high end brands to gain additional margins on polished diamond sales.

Due to the above factors, mining companies such as Meya, which hold high grade, high value, large stone primary (kimberlite) deposits are uniquely positioned to meet the demands of the future diamond market.

VALUATION

The increase in fair value of the resource portfolio at date of deemed disposal and reacquisition (1 September 2021) is due to the investment in Meya being measured in accordance with IFRS 13 using the income approach and discounted by its weighted average cost of capital (WACC). The WACC saw a marked increase during the period under review as a result of lending rates, market risk as well as equity risk premiums increasing during the year. These increases were, however, offset by a devaluation of the US/NAD dollar exchange rate.

In June 2022, Trustco and its partner Germinate (SL) Ltd entered into a term sheet with SJSL Investments (SJSL) from the UAE, whereby SJSL would invest a combination of equity and debt into Meya. As a result, as at 31 August 2022, Trustco valued its investment in the resources investee using the independent offer from SJSL as the basis for the fair value in accordance with IFRS 13.

At the time of this report, Trustco Resources, Germinate (SL) Ltd and Sterling Global Trading Ltd (SGT), SJSL's nominee, entered a transaction in whereby SGT will invest a total of USD 75 million in Meya. The investment comprises of USD 25 million in equity, USD 25 million as a SGT loan and a USD 25 million third-party market loan. The investment will be utilized exclusively for the development of the mine over the next 24 months, by which time the production target is approximately 30 000 carats per month. Upon

conclusion of the equity investment, SGT will hold 70% of Meya's equity.

Not only does this investment enable Meya to transition into commercial production, but also lays the foundation to grow this asset exponentially in the medium-term. Ongoing exploration and resource development targeting fifteen of the sixteen remaining exploration phases across the licence area over the next 10 to 15 years should yield significant growth potential. The strategic intent is to align and increase production from the mine as the mineral resource inventory increase. All future growth will be funded from internal cash flows.

INVESTMENT CASE

Trustco, as a majority family owned investment entity, remains committed to investing for medium- to long-term sustainable growth and wealth creation. This approach not only benefits its coinvestors, but also contributes to the development and prosperity of the communities in which it operates.

It remains true that all markets and economies can be cyclical – especially in the current climate - and thus setbacks are expected. However, Trustco sees these challenges as opportunities to drive success. By maintaining a long-term perspective, staying disciplined and being patient, Trustco can take advantage of these opportunities to create value for its coinvestors.

Trustco will continue to identify and invest in opportunities with high growth potential and medium- to long-term sustainability. The group remains mindful of the impact its investments have on the environment and society and strive to make investments that promote inclusive development and positive change.

Trustco remains driven by a deep sense of responsibility to its investors, employees and community and are committed to building long-term relationships and creating exceptional sustainable value for all its stakeholders.