

# RISK MANAGEMENT AND INTERNAL CONTROL

## RISK MANAGEMENT

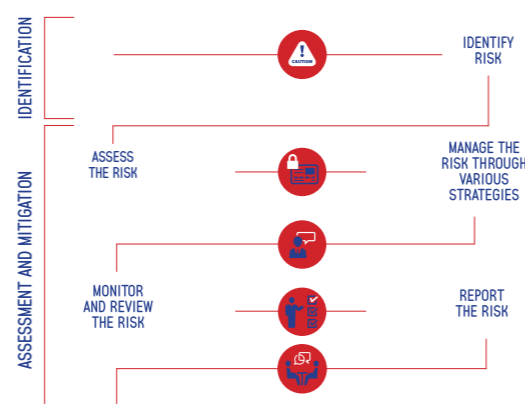
A robust and effective risk management system is crucial for the assessment, monitoring and mitigation of risk identified within the group. Ethical leadership and human capital are the cornerstone of Trustco's risk management as these ensure entrepreneurial flair, corporate reputation and effective governance. As an investment holding company, the risk management process takes cognizance of risks and opportunities within the group as well as the risks and opportunities inherent in its investment portfolio.

Some subsidiaries in the group for example have their specific risk policies, whilst others are covered by the group risk framework. The board evaluates the risk profile and appetite of the group for each material transaction prior to entering into it.

The board of directors is ultimately responsible and accountable for the management of risk within the group, the determination of risk appetite and risk tolerance as well as the implementation, oversight and monitoring through the ARCs. The board discharges its responsibilities for risk management through the group governance structure and more specifically the ARCs. The ARC is responsible for the oversight of risk management, which includes forming its own opinion on the actual effectiveness of the risk management process and policies in the group operations. This is escalated to the board which further ensures oversight of the framework, policies, opinions and maintenance of the systems of internal controls. Management is accountable to the board for the design, implementation, maintenance, monitoring and integration of the process of risk management in the day-to-day activities of the group. The following controls are in place to assist with risk management to ensure the group achieves its strategic and operational goals.

## RISK REVIEW

The group maintains effective risk management through internal controls and an assurance framework based on adherence to King IV, the JSE and NSX LR, the Namibian and South African Companies Acts and the NamCode. The group continues to remain compliant with the applicable laws and regulations.



## INTERNAL CONTROL SYSTEMS

The adherence to internal controls is governed by approved policies and procedures. These are reviewed on a regular basis by management, internal and external audit as well as management committees. Additional audit and risk committees operate throughout the group in the subsidiaries to ensure overall oversight of all risks before being escalated to the applicable boards.

## INTERNAL AUDIT

Internal audit is responsible for assisting the board and management to maintain an effective internal control environment by evaluating and testing the controls continuously to determine whether they are effective and adequately designed as well as to recommend improvements. The internal audit department provides the audit and risk committee with assurance on the effectiveness of the internal control systems.

## EXTERNAL AUDIT

The group Auditors' Rotation Policy ensures the independence of the external auditors. In terms of the JSE LR, the external auditor of the group must be accredited with the JSE. Moore resigned as the JSE accredited auditor for Trustco Group Holdings Ltd and the South African operations during March 2020, however remains appointed for the Mauritian entities as well as the Sierra Leone operations. Moore resigned after the ARC requested the auditors to review the fee structures submitted to the ARC regarding audit fees. Nexia SAB&T were appointed as the new JSE accredited auditors on 6 July 2020. BDO remained the auditor for the Namibian operations up to the end of November 2020. The independence of the external auditors is recognised and reviewed regularly by the ARC. The external auditor attends ARC meetings and has direct access to the chairman of the ARC. The Lenders Group of Trustco also performed an independent business review that continued into the current reporting period and was satisfactorily concluded.

## EXTERNAL ASSURANCE

Various external parties are used to assess the adequacy and effectiveness of controls and in certain instances, to provide risk assurance and to ensure compliance, for example environmental, ICT and safety audits.

The audit and risk committee as well as the board has access to an independent JSE accredited IFRS advisor, external compliance advisor and external legal advisor at all times.

## COMPLIANCE

The group faces complex challenges as it invests in diversified and various industries. It can only comply with all requirements, on all levels, with the different regulatory bodies for the different investee companies if a proper risk management system is in place and adhered to at all times. The compliance function identifies, assesses, advises, monitors and reports on the compliance risk of the group and its subsidiaries, as well as legal risk in terms of the potential impact of changes in laws and regulations. The company secretarial department, senior management with the assistance of the group CAE, internal audit and the legal department manage and ensure compliance with relevant laws and regulations. Any compliance issues or risks identified are mitigated, monitored and reported to the ARC.

## ICT GOVERNANCE

Information and communication technology is managed from group level and is designed to support Trustco in achieving its strategic objectives. The Group ICT Strategy and Steering Committee (ICT SSC) performs governance functions with its chairperson reporting to the Top 6. All ICT policies are continuously reviewed and approved by the ICT SSC. ICT is regarded as essential to the continued sustainable operations of the group and the ICT SSC meets quarterly on a formal basis and informally on a continuous basis. The group maintains policies that guide ICT service delivery, incident management, physical security, change management, patch management, passwords and acceptable use. IT risk management is included into the combined assurance process of the group and an ICT business continuity plan and disaster recovery plan are maintained, both of which are tested on an annual basis.

## INVESTOR RELATIONS AND SHAREHOLDER COMMUNICATION

The board acknowledges the importance of keeping shareholders and the investor community informed of developments in the business of the group. Communication with shareholders is based on the principles of timely, balanced, clear and transparent information. Both positive and negative aspects of financial and non-financial information are provided. Interactions with institutional investors take place on a continuous basis.

## PRICE SENSITIVE INFORMATION

No director, officer, employee or associate of any of the aforementioned, may deal either directly or indirectly in the company's shares based on unpublished price sensitive information regarding the company's business or affairs. In addition to the above, no director, officer, employee or associate of any of the aforementioned, in possession of price sensitive information, may trade in the company's securities during closed periods.

The company also has a formal policy on trading in company shares that has been maintained to ensure that the securities dealings by employees and directors are conducted in compliance with the JSE LR, the Financial Markets Act (SA) and Financial Intelligence Act (Namibia). The company procedures also ensure that trading in the company's securities cannot occur without a thorough vetting, compliance and approval process at all levels throughout the group. The directors, senior management and their associates also have an additional policy that aligns the procedures for trading in the group's securities with the JSE LR.

## PROHIBITED PERIODS

Closed periods are from the end of the interim and annual reporting periods up to the announcement of financial results for the respective periods or while the company is under a cautionary announcement.

## ISSUING OF SHARES

Trustco issued 10.7 million shares under its general authority and 2.2 million shares as a specific issue of shares during the reporting period. The final payment in terms of the Huso transaction as well as 10 000 shares to Evo in terms of the Evo transaction were also issued.

## REPURCHASE OF SHARES

The group has a repurchase programme in place that also allows the company or its subsidiaries to acquire securities during closed periods.

The group will continue with its share repurchase programme for as long as the company and board resolves that the prevailing share price is below its intrinsic value.

## AMENDMENT TO THE FINANCIAL YEAR

The group amended its financial year end from 31 March to 30 September in line with the Companies Act 28 of 2004. All regulatory approvals were secured where required. Trustco Bank Namibia Ltd, Trustco Life Ltd and Trustco Insurance Ltd will align their year end within the next reporting period.

# PRINCIPAL RISKS

## COVID-19

The COVID-19 pandemic has had a detrimental effect globally on lost hours of work due to lockdowns and the health of the employed workforce. Economically, this has resulted in demand shifting between different products and services as well as loss of disposable income which affected supply chains.

Trustco group proactively implemented a comprehensive Coronavirus policy in the early stages when the pandemic was declared. As a result, minimal working hours in the group and its investee companies were lost. The following principal risks have been identified during the reporting period and since the onset of the pandemic in the investments of the group:

## INSURANCE AND ITS INVESTMENTS

- **INSURANCE** – the main insurance product is legal cover under the Legal Shield brand. Due to the nature of labour relations during the pandemic, this product has become more valuable to clients and was therefore maintained. Accordingly, premium income has remained fairly stable with only a slight decrease of 2% since March 2020.
- **PROPERTY INVESTMENTS** – while the Namibian residential property market has seen prices decline since 2015, Trustco's prices have remained stable and the property division was not affected by the decrease, although volumes have declined. As a result, the group decommissioned any further development of infrastructure as there is sufficient stock to meet current demand. This decommissioning in turn resulted in the necessary reduction of the workforce and operations in the construction division. With the reduction in interest rates caused by the pandemic, the group anticipates that there remains potential for a turnaround in the property market.
- **BANKING AND FINANCE** – due to the nature of the target market of the banking and finance division, very few retrenchments were seen amongst clients, resulting in collections remaining fairly stable with minimal decreases since March 2020. Due to these above-average results, approximately NAD 340 million in new funding will be injected into the loan book over the next reporting period, whilst maintaining the group's very stringent credit vetting controls and procedures.

## RESOURCES

- **MINING** – the diamonds produced by the Meya mine being Type IIa - exceptional high value diamonds due to their lack of impurities- make up between 1% and 2% of all natural diamonds. Demand did not decrease significantly during the pandemic due to their rarity.

## REGULATORY RISK

The principal regulatory risk is in the financial services sector, where the implementation of the Namibia National Reinsurance Corporation Act may result in a 20% reduction of profit in the insurance division. The Act is currently being contested in court and the group is focused on diversifying its insurance operations with a possible acquisition of another insurer to mitigate this risk.

## LIQUIDITY RISK

Due to the pandemic, liquidity pressures on the overall economy have also filtered down to the group's investments. The group has negotiated on behalf of its investee companies to secure additional funding lines, of which some have already materialised during and after the reporting period, with up to USD 50 million still being negotiated. With the pandemic's potential deleterious effect on the economy, the group sought to reduce liquidity risk across the board by restructuring its US, Swiss and German funding lines. This resulted in capital holidays and term extensions for existing debt, ensuring that its risks remain low.

## INTEREST RATE RISK

The Namibian Central Bank has reduced interest rates during the pandemic to ease pressure on consumers and businesses alike, but this had the unfortunate effect of reducing margins in the banking and finance division. Additional capital has been allocated to this division to ensure stable returns by offsetting the interest decrease with greater volumes.

## MARKET RISK

The start of the pandemic saw a significant decline in stock market prices, with stocks in financial services most affected. The group was therefore not immune to its operating environment and saw a significant decline in its market capitalisation as a result. Since this was identified as a non-standard market event, the group expects prices to return to normal over time.