

# RISK MANAGEMENT AND INTERNAL CONTROL

## RISK MANAGEMENT

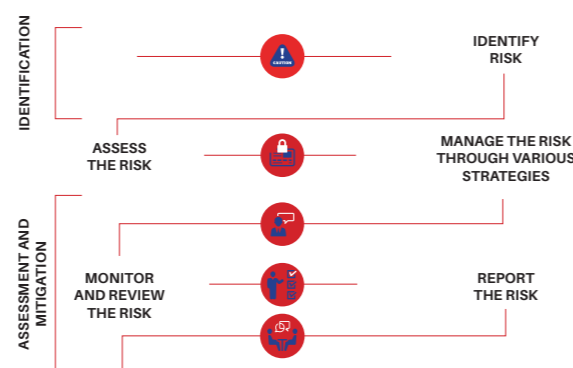
A robust and effective risk management system is crucial for the assessment, monitoring and mitigation of risk identified within the group. Ethical leadership and human capital are the cornerstone of Trustco's risk management as these ensure sound corporate reputation and effective governance. As an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

Some subsidiaries and investees in the group have specific risk policies, while 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 subsidiary 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's 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 is 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 aims 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 Auditors' Rotation Policy of the group 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. Nexia SAB&T continue in office as the JSE accredited auditor as well as the auditor of the South African operations. Moore remains the auditor for the Mauritian and Sierra Leone operations, with Grand Namibia and SML Namibia being the auditors for the Namibian operations. The independence of the external auditors is reviewed regularly by the ARC. The external auditor attends ARC meetings and has direct access to the chairman of the ARC.

## 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 with environmental, ICT and safety audits. The ARC 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. Compliance with all requirements, on all levels, with the different regulatory bodies for the different companies in which the group has invested can only be achieved 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 matters or risks identified are monitored, mitigated and reported to the ARC.

## ICT GOVERNANCE

Information and communication technology (ICT) is managed from group level and is designed to support Trustco's investments in achieving their strategic objectives. The group ICT Strategy and Steering Committee (ICT SSC) performs governance functions with its chairperson reporting to the group executive committee (exco). 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's investments 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. ICT 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 of the company or its subsidiaries, may deal either directly or indirectly in the company's securities based on unpublished price sensitive information which they may have in their possession nor may they trade in the company's securities during closed periods. The company also has formal policies on trading in company shares that have been maintained to ensure that the securities dealings by employees, senior management, directors and associates are conducted in compliance with the JSE LR, the Financial Markets Act (SA) and Financial Intelligence Act (Namibia).

## 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 and while the company is under a cautionary announcement.

## ISSUING OF SHARES

Trustco did not issue any shares during the reporting period.

## REPURCHASE OF SHARES

The group has a repurchase programme in place that 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 resolve that the prevailing share price is below its intrinsic value.

The company has repurchased 7 19 491 of its securities during the reporting period.

## AMENDMENT TO THE FINANCIAL YEAR

The group amended its financial year-end from 30 September to 31 August in accordance with the Companies Act. All regulatory approvals were obtained as required.

# 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 continued with its comprehensive Coronavirus policy and accordingly minimal working hours were lost. Over 75% of the employees have had their first vaccination and over 59% are fully vaccinated. The following principal risks have been identified both 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 change in labour relations during the pandemic, this product has become more valuable to clients and was therefore maintained and accordingly, premium income has remained fairly stable. However, an increase in death claims has occurred during the reporting period due to the pandemic, with said claims covered by the long-term insurer.
- Real estate – while the Namibian residential property market has seen housing prices decline since 2015, Trustco's prices for serviced land have remained stable and the property division was not affected by the general residential housing price decrease, although sales volumes have declined. The lower interest rates throughout the period have resulted in the property market showing signs of recovery.
- Banking and finance – the injection of new funding together with an increased appetite for distance education financing resulted in growth for the student loan book. Banking and finance maintained its stringent credit vetting controls and procedures throughout the reporting period. Interest rates remained low during the reporting period with the prime rate at 7.5%, reducing the effective interest rate of the loan book. Collections on defaulted loans were slower during the reporting period with the restriction on movement causing a delay in the delivery of summonses to these customers.

## RESOURCES

- Mining – the diamonds produced by Meya are of exceptionally high quality within the top tier, 2% of all natural diamonds, thus in high demand despite global market conditions having been under pressure as a result of the COVID-19 pandemic. Global supply chain challenges will most likely impact the mine in terms of delays with delivery of spares and equipment.

## 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 by various Namibian insurers.

## LIQUIDITY RISK

Due to the pandemic and continued recession, liquidity pressures on the overall economy have filtered down to the group's investments. Liquidity is monitored with continuous forward-looking cash flow forecasts and the management of funding facilities. A new facility for Meya was secured which assisted in bringing the mine to commercial production. Facilities secured in the previous reporting period for the loan book and property developments were drawn down during the period under review.

## INTEREST RATE RISK

Interest rates have remained low during the period under review and resulted in reduced margins in the banking and finance division. Additional capital continues to be allocated to this division to ensure stable returns by offsetting the low interest rate margins with greater transactional volumes.

## MARKET RISK

The pandemic resulted in 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.