

# RISK MANAGEMENT AND INTERNAL CONTROL

## RISK MANAGEMENT

Ethical leadership is the cornerstone of Trustco's risk management process. An effective risk management system is crucial for the assessment, monitoring and mitigation of risk, determination of risk appetite and risk tolerance for which the board of Trustco remains accountable.

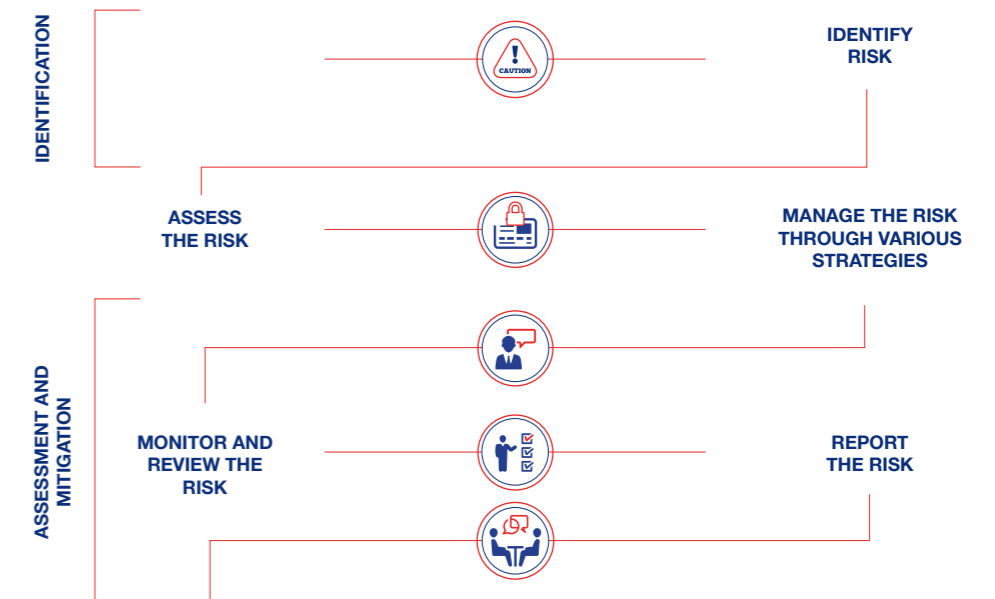
As an investment entity, the portfolio companies that Trustco invests in have their own independent boards responsible for the risk management process and systems of internal control in their companies. Regulated portfolio companies also have audit and risk committees appointed by their boards.

The board is responsible for the oversight of risk management, which includes monitoring the actual effectiveness of the risk management process, the adequacy of the risk policies and the systems of

internal control in the operations of the company. 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 company. The following is in place to assist with risk management to ensure the group achieves its strategic and operational goals.

## RISK REVIEW

Effective risk management is achieved through the risk management process, internal controls and an assurance framework based on adherence to King IV, the NamCode, the JSE and NSX LR, the Namibian and South African Companies Acts. The group aims to remain compliant with the applicable laws and regulations. There is a formal process of identification, assessing, managing, monitoring and reporting risks throughout the group and its subsidiaries.



## RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

### INTERNAL CONTROL SYSTEMS

The adherence to internal controls is governed by approved policies and procedures. These controls are reviewed by management, management committees, internal and external audit. In regulated entities audit and risk committees operate to ensure overall oversight of risks.

### 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 on a regular basis to determine whether they are effective, adequately designed and to recommend improvements. The internal audit department provides the board and 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. The independence of the external auditors is reviewed regularly by the group ARC. The external auditor attends ARC meetings and has direct access to the chairperson 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 have access to an independent JSE accredited IFRS advisor, external compliance advisor and external legal advisor.

### COMPLIANCE

The group faces complex challenges as it invests in diversified and varied industries. Compliance with all requirements, on all levels, with the different regulatory bodies can only be achieved if a proper risk management system is in place and always adhered to. The compliance function identifies, assesses, advises, monitors and reports on the compliance risk of the group as an investment entity, 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 and the board.

### 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 regular 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.

### PRINCIPAL RISKS

#### INVESTOR RELATIONS AND SHAREHOLDER COMMUNICATION

The group board acknowledges the importance of keeping shareholders and the investor community informed of developments in the investments 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 the company or its subsidiaries and investees, 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 directors trade in the company's securities during closed periods. The company also maintains formal policies on trading in company shares 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 and investees 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.

During the reporting period, 520 000 securities were sold.

#### INVESTMENT RISK

With the group now reporting as an investment entity, investment risk has become its paramount concern. The nature and timing of acquisitions, whether to

increase or reduce current investments and the exit strategies have increased the investment risk and consumes much of the time of the investment committee. Risks in the individual portfolio companies can result in a level of uncertainty in achieving the returns as expected by the group.

#### REGULATORY RISK

Trustco's principal regulatory risk is a perceived non-compliance of the JSE LR. During the reporting period, this risk was amplified as a result of differing opinions on the interpretations of the application of International Financial Reporting Standards (IFRS). Trustco's board will continue to apply its fiduciary duty with respect to the enforcement of JSE LR. Subsequent to the reporting period, this risk was addressed with the restatement set out in the annual financial statements.

#### CURRENCY RISK

Trustco has a major investment in a portfolio that operates on a US Dollar basis, while the group itself reports in Namibia Dollars. It's exposure to the US Dollar exchange rate thus remains a large risk for the foreseeable future.

#### LIQUIDITY RISK

Due to the continued depressed economy, liquidity pressures affect the group and its portfolio companies. Liquidity is monitored with continuous forward-looking cash flow forecasts and the management of funding facilities.

#### INTEREST RATE RISK

Interest rates have increased during the period under review. Additional capital will thus be more expensive to raise. Wide fluctuations in interest rates have a significant effect on the valuations of investments as these are now reported on at fair value. Increases do, however, to some degree mitigate reinvestment risk as long as interest rates continue to increase.

#### MARKET RISK

There has been a significant decline in stock market prices, with stocks in financial services most affected. The group was therefore not immune to this phenomenon 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 normalize in the medium term.