

# RISK AND OPPORTUNITIES MANAGEMENT AND INTERNAL CONTROL

## ETHICAL LEADERSHIP

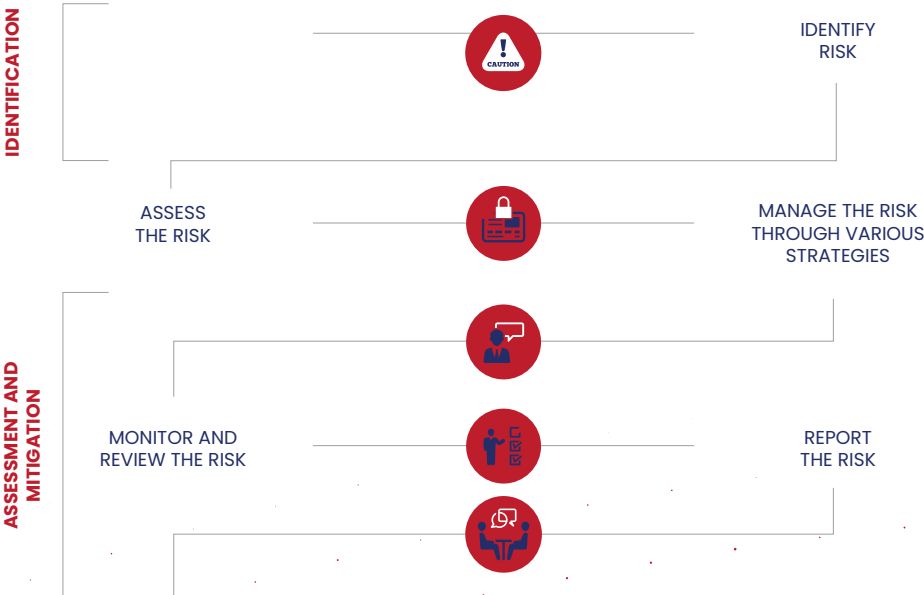
Ethical leadership and human capital empowerment are the cornerstone of Trustco’s risk management process as they ensure operational competence, entrepreneurial aptitude and sound governance. An effective risk management system together with the strong commitment of the board is crucial for the assessment, monitoring and mitigation of risk, determination of risk appetite and risk tolerance for which the board of Trustco remains accountable. The board has reviewed the Group Risk Management Policy which has been implemented by management and the policy ensures continuous identification, assessment, management, treatment, internal control embedment as well as risk mitigation, reduction and strategies.

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 measures are in place to assist with risk management to ensure the group achieves its strategic and investment goals.

## RISK REVIEW

Trustco is an investment holding company and the risk and opportunities management process takes cognisance of risks and opportunities within the company as well as those within its investment portfolio. 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 identifying, assessing, managing, monitoring and reporting risks throughout the group. The risk management process comprises the arrangement of resources to achieve objectives aligned with strategy and business plans, as well as the exploitation of available opportunities that meet the risk appetite and criteria set by the board. Risk profiles inherent to investment activities are maintained within approved tolerance levels considered by the board to optimise return parameters for sustainable investment returns and growth.



THE INTERNAL  
AUDIT  
DEPARTMENT  
PROVIDES THE  
BOARD AND  
AUDIT AND RISK  
COMMITTEE WITH  
ASSURANCE  
ON THE  
EFFECTIVENESS  
OF THE INTERNAL  
CONTROL  
SYSTEMS.

#### **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 applicable as at 31 August 2023, the external auditor of the group must be accredited with the JSE. Nexia SAB&T continued in office as the JSE accredited auditor. The independence of the external auditor is reviewed regularly by the group ARC. The external auditor attends ARC meetings and has direct access to the chairperson of the ARC. Changes to the JSE LR with regard to the auditor accreditation model was implemented with effect from 4 December 2023, the impact of which will be assessed by the Company in the next reporting period, as the audit for the year ended 31 August 2023 was substantially complete at the time of implementation.

#### **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.

# RISK AND OPPORTUNITIES MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

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) and ARC. 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 and practices 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 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, regular, balanced, accurate, clear, reliable 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 no securities were sold or acquired.

## PRINCIPAL RISKS

Strategic risk assessment includes the consideration of probable future scenarios and risks, taking cognisance of political, environmental, social, technological, economic and legislative developments on international as well as local markets. This risk report focuses on Trustco as an investment entity and its subsidiaries as its portfolios are operated independently and have autonomous boards.

## INVESTMENT RISK

### KEY OBJECTIVE

With the group reporting as an investment entity, investment risk has become its paramount concern. Maintaining Trustco's corporate presence in the investment holding environment enables the company to acquire meaningful stakes in selected investment opportunities.

The company pursues investment opportunities that can deliver superior returns and investment growth over the medium- to long-term. Furthermore, ensuring underlying investments are effectively managed, deliver expected returns and that the group's rights are protected is a continuous focus of the company.

#### **KEY CONTROL**

The nature and timing of corporate actions, investment decisions, acquisitions and disposals are aligned with long-term strategy. Decisions as to whether to increase or reduce current investments and the timing of the exit strategies have increased the investment risk and consume much of the time of the investment committee. Risks in the individual investment portfolios can result in a level of uncertainty in achieving the returns as expected by the group, however comprehensive network and processes focused on sound investment decisions, risk based due diligences, reviews and sustainability goals are integrated into management practices. Appropriate and comprehensive shareholder agreements, control structures and skilled management teams facilitate effective control coupled with review process of regular and detailed reporting from investee companies.

#### **REGULATORY RISK**

##### **KEY OBJECTIVE**

Full compliance with regulatory, legislative and industry practices.

##### **KEY CONTROL**

Trustco's current principal regulatory risk is a perceived non-compliance with the regulations of the Bank of Namibia. During the reporting period, this risk and the steps taken in mitigation thereof were addressed by challenging the Bank of Namibia by means of the legal process. Trustco's board will continue to apply its fiduciary duty with respect to compliance with Bank of Namibia regulations.

#### **CURRENCY RISK**

##### **KEY OBJECTIVE**

To decrease US Dollar based liabilities and minimise adverse effects of currency fluctuations. Trustco has a significant investment in a portfolio that operates on a US Dollar basis, while the group itself reports in Namibia Dollars.

Its exposure to the US Dollar exchange rate thus remains a risk for the foreseeable future.

##### **KEY CONTROL**

In pursuit of comprehensive risk management, the company employs a strategy that effectively mitigates foreign currency risk. This is achieved through a strategic blend of investments denominated in both Namibian Dollars (NAD) and US Dollars (USD). By adopting this diversified investment approach, the company establishes a harmonious natural hedge within the group, which provides a safeguard against potential fluctuations in USD-based liabilities. This proactive measure serves to bolster financial resilience and underlines Trustco's commitment to prudent risk management practices.

#### **LIQUIDITY RISK**

##### **KEY OBJECTIVE**

Increase available liquidity to fund financial obligations, cash flow needs and new investments and further support existing successful investments.

##### **KEY CONTROL**

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, effective functioning of treasury and the management and maintenance of appropriate funding facilities.

#### **INTEREST RATE RISK**

##### **KEY OBJECTIVE**

To forecast interest rate movements by analysing the factors such as inflation, monetary and fiscal policy, economic growth, and supply and demand that affect interest rates. Interest rates have consistently increased during the period under review. Additional capital will thus be more expensive to raise.

##### **KEY CONTROL**

Varied 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.

# RISK AND OPPORTUNITIES MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

## OPPORTUNITY RISK

### KEY OBJECTIVE

Ensuring opportunity risks are managed by analysing various investment options to prevent potential losses or unfavourable outcomes and to ensure that good investment opportunities are not lost.

### KEY CONTROL

A capable and experienced investment committee and implementation of a skilled investment team with efficient processes and control with effective support structures. Board oversight and monitoring of performance against investment policy, plans and decisions.

### MARKET RISK

There has been a decline of approximately 10% in JSE stock market prices over the year, with stocks in financial services increasing. The market capitalisation of the group, however, remained steady.

### KEY CONTROL

Diversification of investments combined with asset allocation based on risk-return profiles. The group expects prices to normalise in the medium-term.

## OVERVIEW OF FOCUS AREAS

The following key focus areas shaped the organisation's priorities during the reviewed fiscal year:

- **Geopolitical Concerns:** The ongoing Russian-Ukraine conflict remained a concern. Consideration extended to the potential implications on business continuity and resilience.
- **Navigating Emerging Risks:** Addressing emerging risks was a central concern, encompassing global and local political dynamics, socioeconomic developments, and trends, including crime rates, infrastructure stability and electricity supply reliability.
- **Strengthening Fraud Resilience:** The year under review emphasised the importance of robust fraud prevention and detection processes due to the prominence of reported global and national irregularities.

- **Evolving Reporting Standards:** Keeping pace with developments in international financial reporting standards and evolving frameworks for Environmental, Social, and Governance (ESG) reporting was a priority.
- **Audit Landscape Dynamics:** Monitoring auditor rotation trends and the reputational challenges faced by specific audit firms shaped the organisation's outlook.
- **Material Transactions Review:** Material transactions undertaken during the financial year were evaluated to gauge their significance and impact.
- **Enhancing Risk Assurance:** The effectiveness of risk and opportunity assessment processes, combined assurance mechanisms, and control environment were scrutinised.
- **Control Environment Evaluation:** Thorough evaluation was conducted on the effectiveness of the control environment and internal financial controls.
- **Audit Terms and Plans:** The terms and assurance plans of both internal and external auditors were reviewed for alignment and coverage.
- **Comprehensive External Reporting:** Comprehensive external reporting, encompassing both financial and non-financial aspects, was a key consideration.
- **Technology Governance and Cyber Risk:** Technology and information governance, including the ever-pressing concern of cyber risk, remained at the forefront.
- **ESG and Sustainability Focus:** ESG and sustainability-related factors were woven into the organisation's strategic priorities.

These overarching themes will continue to feature prominently on the agenda, aligned with the group's governance standards and the mandates of pertinent committees.