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TRANSACTION CAPITAL
INTEGRATED ANNUAL REPORT 2017

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GOVERNANCE

GOVERNANCE REPORT

THE BOARD OF DIRECTORS OF TRANSACTION CAPITAL IS THE FOCAL POINT OF ITS CORPORATE GOVERNANCE FRAMEWORK. THE GROUP FOLLOWS A STAKEHOLDER-INCLUSIVE APPROACH TO GOVERNANCE, WITH THE BOARD BEING ULTIMATELY RESPONSIBLE AND ACCOUNTABLE TO STAKEHOLDERS FOR THE PERFORMANCE, ACTIVITIES AND CONTROL OF THE GROUP.

KING IV

The King IV Report on Corporate Governance for South Africa was released on 1 November 2016 and is effective for financial years commencing from 1 April 2017. In line with the JSE Listings Requirements, Transaction Capital has transitioned to the new code, as encouraged. King IV advocates an outcome-based approach and defines corporate governance as the exercise of ethical and effective leadership towards achieving the following governance outcomes:

- Ethical culture
- Good performance
- Effective control
- Legitimacy

Transaction Capital has set out its governance structures in line with the 16 principles of King IV. The application of King IV is on an apply and explain basis, and many of the practices underpinning the principles form an integral part of the group's internal controls, policies and procedures governing corporate conduct. The application of recommended practices have been adopted and reported on as necessary as part of the transition to King IV, taking into account Transaction Capital's business operations and its governance structure.

The board is committed to complying with legislation, regulations and best practices relevant to the group. The board regards the process of assessing and monitoring adherence to adopted governance standards as dynamic and endeavours to continually improve governance structures within the group. This is aligned with the aspirational nature of the King IV principles.

PRINCIPLE 1:

Ethical leadership

The governing body should lead ethically and effectively.

The board maintains a high level of individual and collective responsibility, accountability, fairness and transparency, which together drive a culture of risk awareness, ethical behaviour and value creation.

The board is responsible for the strategic direction of the group, which it considers in conjunction with the group's values and ethics charter. The group's values (available on its website, www.transactioncapital.co.za) provide the foundation for effective and ethical leadership, and are the basis for all deliberations, decisions and actions at board level and within every area of the business.

BOARD OF DIRECTORS

The board provides effective and responsible leadership based on an ethical foundation by directing strategy and operations in a way that supports sustainable business, while considering the short- and long-term impacts on society, the environment and stakeholders, as per the group's sustainability policy.

The board acts as the custodian of governance and has approved a formal charter that sets out its responsibilities in this regard. The board is responsible for appointing the chief executive officer (CEO) and for monitoring his management of the performance of Transaction Capital's assets and resources against approved strategic and financial objectives.

The board delegates specific responsibilities to appropriately mandated and constituted sub-committees, set out on page 79. The audit, risk and compliance (ARC) committee and the social and ethics committee both fulfil the statutory governance requirements on behalf of Transaction Capital and its divisions.

82 DETAILS OF RISK CATEGORIES MANAGED BY THE BOARD SUB-COMMITTEES ARE INCLUDED IN THE RISK REPORT

PRINCIPLE 2:

Organisation values, ethics and culture

The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.

ETHICS

Transaction Capital's ethics charter outlines the group's core values of integrity, respect, excellence and innovation. In addition, it describes Transaction Capital's guiding business principles that direct all business dealings within the group, by employees and with other stakeholders. As an ethical roadmap for the group, the ethics charter requires all group operations to conduct business with honesty and integrity, and in accordance with the highest legal and ethical standards.

The CEO is the custodian of the charter, and is assisted by the group's ethics officer. The board reviews the charter annually.

Transaction Capital maintains an independent whistle blowing hotline operated by an external service provider. Reports can be made anonymously through the hotline and are directed to the group ethics officer for investigation or escalation. In addition, reporting of unethical or fraudulent behaviour to line management and the respective human resources departments of the group's businesses is encouraged. This is reported on in the social and ethics committee meetings as well as the relevant board meetings.

PRINCIPLE 3:

Responsible corporate citizenship

The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.

Responsible corporate citizenship is integrated into the group's strategy, and its principles underpin all key aspects of the business. Ultimate responsibility lies with the board, with oversight vested in the social and ethics committee and the ARC committee.

The social and ethics committee monitors targets and measures many of the aspects listed under the King IV practices (including employment equity, fair remuneration, equal work for equal pay, safety, health, economic transformation, public health and safety, consumer protection, community development and protection of human rights). The ARC committee is responsible for the prevention, detection and response to fraud and corruption. It is also responsible for tax policy.

The sustainability policy governs interactions with the group's stakeholders. Stakeholder engagement takes place at all levels, across the subsidiaries and group. The sustainability policy has been approved by the board and adopted by the group.

In addition, the ARC committee oversees the preparation of the integrated report, with certain sections being reviewed by the external and internal auditors where appropriate.

Each division's societal relevance is core to achieving the group's strategic objectives.

34 & 44 FOR FURTHER DETAIL ON THE SOCIETAL RELEVANCE OF TRANSACTION CAPITAL'S DIVISIONS

PRINCIPLE 4:

Strategy, implementation and performance

The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.

The board has set out its mission, strategy and associated risks in this integrated report, with Transaction Capital's core values available on its website. In directing strategy, the board considers the risks and opportunities related to the context in which the group operates, to create value for all stakeholders.

The board has delegated the formulation and implementation of group strategy to management with the required input from the board. The board has approved the group strategy along with key performance criteria and targets for management to assess the implementation of the group strategy.

The ARC committee assists the board with the governance of risks, as detailed in the committee's terms of reference. The board assesses the overall viability of the company with regards to its reliance and effects on capital, solvency and liquidity, and its status as a going concern.

PRINCIPLE 5:

Reports and disclosure

The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and its short, medium- and long-term prospects.

The board has approved the group's strategy, together with its risks and opportunities, which are all included in this integrated report. The integrated report enables stakeholders to make an informed decision about the group's direction.

Based on the recommendation of the ARC committee, the board approves the annual financial statements, the integrated annual report and any other reports published by the company.

PRINCIPLE 6:

Role of the governing body

The governing body should serve as the focal point and custodian of corporate governance in the organisation.

The board of directors of Transaction Capital is the focal point of its corporate governance framework. The group follows a stakeholder-inclusive approach to governance, with the board being ultimately responsible and accountable to stakeholders for the performance, activities and control of the group.

The board has adopted the board charter and approves board sub-committee terms of reference and group policies. The board charter and group policies regulate how the board conducts itself in the best interest of the company and its stakeholders, taking into account the principles of good corporate governance and legislation.

Annual reviews are conducted as part of the board's workplan.

The board charter provides for obtaining independent, external professional advice and for non-executive directors to set up meetings with management, where necessary.

75 SEE PRINCIPLE 1 FOR MORE DETAIL

Transaction Capital's governance and compliance framework facilitates the board's role of providing direction and oversight. It sets a high level of accountability to support consistent compliance with regulatory requirements and the group's risk appetite, and at the same time encourages an entrepreneurial mindset as a key driver of performance.

Each of Transaction Capital's divisions has its own board of directors, with each division's governance processes aligned to Transaction Capital's governance framework, thereby appropriately allocating various levels of authority to individuals and committees

throughout the group structure. The activities of each division's board include reviewing and providing input on the corporate strategy, business plans, risk propensity, budgets and sustainability. The strategies, business plans and performance criteria for each division are clearly defined, with appropriate key performance indicators in place to measure and monitor performance against their strategies.

PRINCIPLE 7:

Composition of the governing body

The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

The board, in conjunction with the nominations committee, assesses the composition and membership of the board and board committees holistically on an annual basis.

The non-executive directors bring independent judgement and experience to the board's deliberations and decisions. Non-executive directors are chosen based on the appropriateness of their business skills and expertise to the strategic direction of the group. The nominations committee and the board take into account the diversity of academic qualifications, technical expertise, industry knowledge, experience, business acumen, race and gender when board appointments are considered. No one individual or group of individuals has unfettered powers of decision-making.

In addition, Transaction Capital supports the principles and aims of gender diversity at board level. The group has adopted a gender diversity policy with a voluntary target of employing at least two female directors at board level, which was met in the reporting period. The nominations committee will assess the set targets and fulfilment thereof annually.

Based on its most recent assessment performed in November 2017, the board, together with the nominations committee, is satisfied that the board's composition reflects the appropriate mix of knowledge, skills, experience, diversity and independence.

In terms of their fiduciary duties, directors should act independently in exercising their judgement and fulfilling their duties, and should not have their discretion fettered in any way. This requires that directors apply their minds honestly and make decisions in the best interest of the organisation on all matters presented to the board.

Directors do not participate on matters in which they may be conflicted. The notion of the independence of directors is also a structural issue that considers their relationship to other parties in assessing their independence. The independence of non-executive directors is assessed annually.

All committees have fully functional structures, with clear objectives set out in their respective terms of reference. Through the chairman of each committee, the committees report back to the board at each board meeting. The committees also report to stakeholders annually as required (be it in the integrated report and/or at the annual general meeting (AGM)).

The composition of each division's board includes non-executive directors, some of whom may be executive or non-executive directors of Transaction Capital. Directors of these boards are of sufficient calibre, experience, diversity and number for their views to carry significant weight in the decisions of the group and divisional CEOs.

Appointment and induction process

The nominations committee assists in identifying suitable board members, and performs background and reference checks prior to their appointment.

New directors are introduced to Transaction Capital through a formal induction programme, which is the responsibility of the company secretary and/or financial director, and consists of an information pack, detailed discussions on the environment and operations of each of the major businesses, and site visits. Formal induction processes were fulfilled for all director appointments during the period.

Consultation process

Directors are encouraged to take independent advice, where necessary, for the proper execution of their duties and responsibilities. This is done at Transaction Capital's expense, after consultation with the chairman. In addition, directors have unrestricted access to the group's auditors and professional advisers, and to the advice and services of the company secretary.

After advising the CEO of their intention to do so, directors may attend any committee or subsidiary board meeting, and have unrestricted access to any executive, manager or employee in the group as well as to any information generated by the group.

In addition, the company provides training to directors, as required.

BOARD APPOINTMENTS, EVALUATIONS AND PROCESSES

Transaction Capital's board comprises the following members:

Independent non-executive directors

- Christopher Seabrooke (chairman)
- Phumzile Langeni
- Kuben Pillay
- Olufunke Ighodaro (appointed 1 April 2017)

The following members resigned during the year:

- Dumisani Tabata (resigned 2 March 2017)
- David Woolam (resigned 2 March 2017)
- Moses Kgosana (resigned 8 September 2017)

Non-executive directors

- Roberto Rossi
- Paul Miller (appointed 1 July 2017)

Executive directors

- David Hurwitz (CEO)
- Ronen Goldstein (financial director)
- Mark Herskovits (executive director: capital management)
- Jonathan Javno (executive director)
- Michael Mendelowitz (executive director)

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THE BIOGRAPHIES OF GROUP DIRECTORS ARE PROVIDED IN THE DIRECTORATE SECTION

This year, Christopher Seabrooke, David Hurwitz and Mark Herskovits will retire by rotation and are standing for re-election at the AGM. These directors have been appraised by the board and their re-election is recommended. In addition, those directors appointed during the year will also be nominated for election as directors.

Chairman

Christopher Seabrooke is the independent non-executive chairman of the Transaction Capital board and is responsible for leading the board in fulfilling its mandate. The offices of chairman and CEO are separate. The board appoints the chairman from among its members annually and, together with the nominations committee, is responsible for the succession plan of the chairman. The chairman's performance is reviewed as part of the board's annual assessments, the result of which showed that the chairman leads ethically and effectively.

Chief executive officer

David Hurwitz is the group CEO, responsible for the leadership of Transaction Capital and the implementation of the strategies, structures and policies adopted by the board. The board appoints the CEO and sets the terms of his employment contract.

The board and its sub-committees have delegated authority to the CEO and management in line with the approved authority framework. Each year during November, the chairman and company secretary facilitate a formal performance appraisal of the CEO comprising an evaluation by each director. In addition, the CEO's employment contract is assessed for adequacy on an annual basis.

Financial director

Ronen Goldstein is the financial director of Transaction Capital and is responsible for reporting on Transaction Capital's financial performance. The ARC committee and the board are satisfied with the financial director's qualifications, experience and competence to fulfil this role. The finance function was assessed as adequate by the ARC committee for the full financial period.

Company secretary

With effect from 2 March 2017, Theresa Palos replaced Statucor (Pty) Ltd as company secretary. The board is satisfied with the qualifications, experience and competence of Theresa Palos.

All directors have access to the services and advice of the company secretary, who supports the board as a whole and the directors individually in fulfilling their duties.

The company secretary is required to fulfil duties under the Companies Act and the JSE Listings Requirements, and to ensure that appropriate procedures and processes are in place for board proceedings. The company secretary is a resource in the group on governance, ethics and legislative changes. The company secretary is entitled to obtain independent advice to achieve these objectives.

The board has assessed the company secretary function as adequate and is satisfied that an arm's length relationship is maintained.

BOARD MEETINGS

Directors are required to attend all board meetings. The board follows a formal workplan that includes strategy, operational and financial performance, risk and governance. Progress against the group’s strategic objectives is reported on at each meeting.

The company secretary is responsible for circulating the agenda and other meeting papers in good time. Formal board papers are prepared for each item on the meeting’s agenda, including reports by the executive office. At least four board meetings are held annually, one of which includes a strategic review.

BOARD AND COMMITTEE MEETING ATTENDANCE FOR THE YEAR UNDER REVIEW

		Board	Audit, risk and compliance	Nominations	Remuneration	Social and ethics	Asset and liability
Number of meetings held for the year		4	3	2	2	2	4
Board member	Status						
Christopher Seabrooke	Independent non-executive	3	2	1	1	–	3
Phumzile Langeni	Independent non-executive	4	3	–	–	2	–
Moses Kgosana ¹	Independent non-executive	3	2	–	–	–	–
Kuben Pillay	Independent non-executive	4	–	2	2	–	–
Olufunke Ighodaro ²	Independent non-executive	3	3	–	–	–	3
Roberto Rossi	Non-executive	4	–	2	2*	–	–
Paul Miller ³	Non-executive	2	–	–	1	–	–
David Hurwitz	Executive	4	3*	2*	2*	2	4
Mark Herskovits	Executive	4	–	–	–	–	4
Jonathan Jawno	Executive	4	3*	2*	2	–	4
Michael Mendelowitz	Executive	4	–	2*	2*	–	–
Ronen Goldstein	Executive	4	3*	2*	2*	2	4*

* Invitee.
 1. Moses Kgosana resigned on 8 September 2017.
 2. Olufunke Ighodaro was appointed as an independent non-executive director on 1 April 2017 and attended all relevant meetings since date of appointment.
 3. Paul Miller was appointed as a non-executive director on 1 July 2017 and attended all relevant meetings since date of appointment.

Succession planning

The nominations committee is responsible for formulating the formal succession plans of the board, the CEO and the CEO’s direct reports. The committee reviews these succession plans annually. On approval of the succession plans, the CEO conducts alignment discussions with potential successors, where necessary, which may result in direct development interventions.

PRINCIPLE 8:

Committees of the governing body

The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.

Board sub-committees

A delegation of authority is in place for board sub-committees. Board sub-committees have terms of reference, which are reviewed annually.

The governance function of the board sub-committees is outlined in the respective approved committee terms of reference.

Included in each committee’s terms of reference is the imperative to enhance the standard of governance within the group, together with clearly defined authority delegation and reporting procedures. The board receives formal feedback from the chairman of each committee at each board meeting. Copies of the minutes of committee meetings are included in board documentation.

To align with King IV, changes were made to committee compositions, which were effective from 1 November 2017. Paul Miller has been appointed to the remuneration committee, replacing Jonathan Jawno, and Kuben Pillay has been appointed to the social and ethics committee, replacing Ronen Goldstein.

BOARD SUB-COMMITTEES AT DATE OF REPORT

	NOMINATIONS	REMUNERATION	SOCIAL AND ETHICS	AUDIT, RISK AND COMPLIANCE	ASSET AND LIABILITY
Chairperson	Christopher Seabrooke ¹	Kuben Pillay ¹	Phumzile Langeni ¹	Olufunke Ighodaro ¹	David Hurwitz ²
Members	Roberto Rossi ² Kuben Pillay ¹	Christopher Seabrooke ¹ Paul Miller ²	David Hurwitz ³ Kuben Pillay ¹	Phumzile Langeni ¹ Christopher Seabrooke ¹	Christopher Seabrooke ¹ Olufunke Ighodaro ¹ Mark Herskovits ³ Jonathan Jawno ³
Functions managed	<ul style="list-style-type: none"> ■ Directors ■ People ■ Succession 	<ul style="list-style-type: none"> ■ People ■ Remuneration ■ Retention 	<ul style="list-style-type: none"> ■ Transformation ■ Sustainability ■ Ethics 	<ul style="list-style-type: none"> ■ Accounting, tax and compliance ■ Information and technology ■ Internal audit ■ Risk ■ Credit 	<ul style="list-style-type: none"> ■ Funding ■ Liquidity ■ Capital
Number of meetings per year	At least two	At least two	At least two	At least three	At least four
Composition	Non-executive directors, the majority of whom are independent. The chairman is the independent non-executive chairman of the board.	All members are non-executive, the majority of which are independent.	The chairperson is an independent non-executive director. The committee comprises a majority of non-executive directors.	Independent non-executive directors.	Includes an independent non-executive director as necessary.

1. Independent non-executive director.
 2. Non-executive director.
 3. Executive director.

PRINCIPLE 9:

Delegation to management

The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.

Assessment of the effectiveness of the board, its committees and the company secretary

A formal performance evaluation of the board, its committees and the company secretary is conducted annually by means of an evaluation questionnaire, to review the mix of skills, performance during the year, contribution and independence of individual directors, and the effectiveness of committees. Results of the evaluations provide the basis for improvement of the board and its committees for the following year.

The nominations committee workplan allows for a discussion of board performance as well as that of committees, the chair and members.

Based on the annual evaluations undertaken during November 2017, the board is satisfied that:

- All directors are committed to their roles and are performing to acceptable standards.
- The board and its committees are effective and operating to an appropriate standard.
- The group’s risk management processes are operating effectively.
- All directors and committee members have the appropriate qualifications, experience and skills required to fulfil the respective committee’s mandate.
- Independent non-executive directors meet the criteria for independence in terms of King IV.
- The expertise, performance and experience of the chairman, CEO, financial director, internal audit executive and the company secretary are adequate (refer principle 7 starting on page 76).

PRINCIPLE 10:*Performance and effectiveness*

The governing body should ensure that the appointment of, and delegation to, management contributes to role clarity and effective exercise of authority and responsibilities.

The board appoints the CEO and has a delegation of authority in place, in terms of which the CEO clearly leads the implementation and execution of strategy and policy, and serves as the link between the board and management. The CEO is accountable to and reports to the board. The role of CEO is clearly defined and his performance assessed by the board.

The board approves the appointment of the company secretary. Access to the company secretary and independent advice is available, where necessary.

An authority matrix is in place for the group governing the authority delegated to group management and matters reserved for decision by the board.

Annual reviews of directors, committees and the company secretary are performed.

PRINCIPLE 11:*Risk and opportunity governance*

The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.

Transaction Capital has a board-approved risk framework, policy, risk appetite and tolerance levels, top risks and ongoing risk oversight and monitoring.

82 FURTHER DISCLOSURE IS MADE IN THE RISK REPORT**PRINCIPLE 12:***Technology and information governance*

The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.

The board has delegated the governance of information and technology to the ARC committee, which also ensures that an IT governance reporting framework is in place. Chief information officers (CIOs) are appointed at each of the divisions, with the appointments ratified by the group CEO. IT expenditure is reported on and governed under the group's authority framework.

Each subsidiary sets its own strategy with regard to technology and information, and reports thereon to its board. Disaster recovery and business continuity plans are in place for the group and are tested regularly. Compliance, information security, risk and the control environment are all dealt with within each IT team.

16 SEE STRATEGIC OBJECTIVE 3 THAT SETS OUT DETAILS OF TRANSACTION CAPITAL'S STRATEGY AROUND DATA AND TECHNOLOGY**PRINCIPLE 13:***Compliance governance*

The governing body should govern compliance with applicable laws and adopted standards in a way that supports the organisation being ethical and a good corporate citizen.

The ARC committee and social and ethics committee takes responsibility for compliance oversight. Board processes are in place to keep up to date with changes in the legislative landscape. The group-wide risk framework specifically manages compliance risk, with dedicated internal compliance functions in place in the divisions.

COMPLIANCE

Regulatory compliance is non-negotiable. This approach is explicitly articulated in Transaction Capital's values and ethics charter.

The board proactively oversees the review of the group's systems of control and governance. It also continuously recommends enhancements to ensure that each division is managed ethically, in compliance with legislative requirements and in line with best practice governance guidelines.

Suitably qualified compliance officers are employed in the divisions, which have high levels of regulatory compliance requirements, interaction and reporting. The roles of the compliance officers are to:

- Identify the applicable legislative, regulatory and governance requirements.
- Prepare relevant monitoring programmes relating to the above-mentioned requirements.
- Recommend improvements to the functional heads within the businesses, and assist with implementation.

Quarterly compliance reports are submitted by the divisions to the group legal and compliance function, which in turn prepares a consolidated compliance report that is submitted to the ARC committee for consideration.

The divisions actively engage with legal counsel to garner advice on the application and implementation of any proposed new legislation, as well as potential effects on their respective businesses. No fines or non-monetary sanctions for non-compliance were levied against any business in the group during the year.

REGULATORY ENVIRONMENT

Due to the nature of its businesses, the group is subject to a range of regulations and legislation including, without limitation:

- National Credit Act (NCA).
- Debt Collectors Act (DCA).
- Insurance-related legislation including the Financial Advisory and Intermediary Services Act (FAIS), the Short-term Insurance Act and Long-term Insurance Act.
- Financial Intelligence Centre Act (FICA).
- Consumer Protection Act (CPA).
- Competition Act.
- Legislation relating to the corporate affairs of the group, including the Companies Act, the Financial Markets Act (FMA), the JSE Listings Requirements and the JSE Debt Listings Requirements.

- Tax-related legislation including the Income Tax Act and the Value-added Tax Act.
- Labour-related legislation including the Labour Relations Act, the Basic Conditions of Employment Act and the Employment Equity Act.
- Second-hand Goods Act.

Compliance with the letter and spirit of all laws, regulations and codes is required. The board, supported by the ARC committee, is responsible for keeping abreast of changes to the legislative landscape.

PRINCIPLE 14:*Remuneration governance*

The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.

The remuneration committee is responsible for establishing and overseeing remuneration policy that promotes the achievement of strategic objectives and encourages individual performance at all levels within the group.

Shareholder approval is required for the remuneration policy and its implementation, and the non-executive directors' fees.

92 DETAILS OF THE REMUNERATION POLICY AND ITS IMPLEMENTATION ARE SET OUT IN THE REMUNERATION REPORT

Remuneration consists of base pay and short- and long-term incentives that are deemed to adequately remunerate executives while aligning executives with the requirements of shareholders.

PRINCIPLE 15:*Assurance*

The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.

The ARC committee is responsible for monitoring the appropriateness of the combined assurance model and applies a co-ordinated approach to all assurance activities. This includes considering the objectives of combined assurance and assessing its effectiveness. In addition, the ARC committee considers the robustness of the combined assurance model in order to place reliance thereon.

The ARC committee oversees the internal audit function and the external audit function. The ARC committee is satisfied that the external auditor remains independent of the organisation and the group has a policy in place to address the provision of non-audit services by the external auditors.

The ARC committee considers the financial reporting procedures that are in place and whether these procedures are operating effectively.

INTERNAL AUDIT

The purpose, authority and responsibility of the internal audit function are defined in the internal audit charter, which is aligned with the requirements of the International Standards for the Professional Practice of Internal Auditing.

The group internal audit executive reports administratively to the Transaction Capital CEO and functionally to the ARC committee chairman. Internal audit has remained independent of all operational functions.

The role of internal audit is to support the achievement of strategic objectives (and the supporting operational, financial and compliance objectives) through a systematic, disciplined approach to evaluating and recommending improvements that serve to increase the effectiveness of internal controls, risk management and governance processes. The annual internal audit plan is based on an assessment of risk areas identified by internal audit and management, and is updated as appropriate to ensure it is responsive to changes in the business. An independent quality review on internal audit was conducted during 2016, and the internal audit function was found to generally conform to the International Standards for the Professional Practice of Internal Auditing, which is the highest rating awarded during such a review.

In accordance with Transaction Capital's combined assurance model, internal audit continues to liaise with external audit and other identified assurance providers to effectively assure against key risks.

PRINCIPLE 16:*Stakeholders*

In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

Transaction Capital's sustainability policy governs the relationship with stakeholders, with the board and social and ethics committee assuming responsibility for stakeholder engagement.

Engagement with stakeholders is considered and discussed at divisional and group board level. Group-wide stakeholder engagement is reported on at each social and ethics committee meeting, the minutes of which are included in the board packs ahead of quarterly board meetings. A stakeholder engagement report is submitted to divisional and group boards bi-annually. The divisions have detailed stakeholder engagement plans in place and report on these to their boards.

82 SEE THE RISK REPORT THAT SETS OUT DETAILS ON THE RELATIONSHIP WITH KEY STAKEHOLDERS