05

RISK

RISK REPORT

Transaction Capital (the group) defines risk as uncertain future events that could influence its ability to achieve its objectives.

In addition, risk is a condition in which the possibility of loss is inextricably linked to uncertainty, and is quantified by the combination of the probability of an event occurring and its consequence. A detailed framework for managing risk is required to facilitate rational decision-making.

The group's risk management approach entails the deliberate planning, arranging and controlling of activities and resources to minimise the negative impact of risks to tolerable levels to prevent value destruction. It also requires maximising the potential opportunities and positive impacts of risks to achieve the group's strategic objectives and enhance value creation.

Risk tolerances on key performance and strategic metrics are determined by the group's divisions and approved and monitored by the audit, risk and compliance (ARC) committee.

RISK FRAMEWORK AND THE GOVERNANCE OF RISK

Transaction Capital's board of directors (the board) is ultimately responsible for the governance of risk. The board delegates the responsibility for managing risk to respective board committees, divisional boards and management, and monitors risk identification and management quarterly.

In terms of the enterprise-wide risk management framework, the board retains responsibility for monitoring reputational, sustainability, strategic and new business and acquisition risk. The monitoring of remaining risk categories is assigned to sub-committees with continuous board oversight, in line with the group's overall governance structure.

The risk framework specifically identifies the risk categories that comprise the group's risk universe. These risk categories, and the respective committees to which oversight responsibility is mandated, are provided on the next page.

RISK UNIVERSE

REMUNERATION COMMITTEE
People, remuneration and retention.

ASSET AND LIABILITY COMMITTEE
Funding, liquidity and capital.

AUDIT, RISK AND COMPLIANCE COMMITTEE
Accounting, tax, compliance, information and technology, internal audit, external audit and credit.

BOARD
Reputation, sustainability, strategic, new business and acquisition.

NOMINATIONS COMMITTEE
Directors, people and succession.

SOCIAL AND ETHICS COMMITTEE
Stakeholders (in particular employees), transformation, sustainability and ethics.

Risk management functions are in place for each division, significant business functions (such as the capital markets team) and for the group as a whole. These functions are responsible for maintaining detailed risk registers, including mitigating factors and management's responses thereto. The individual risk registers are reported and discussed at divisional board meetings, with material risks and mitigations reviewed by the ARC committee and board, where appropriate.

In addition, monthly credit committee meetings take place at SA Taxi and Transaction Capital Business Solutions, quarterly insurance advisory committee meetings take place at SA Taxi, and investment committee meetings take place at Transaction Capital Risk Services (TCRS) as required with regards to the acquisition of purchased book debts. These committees also include non-executive directors as members where relevant.

The profile of each risk details the nature of the threats faced by the group, their impact on their business (taking into account financial and non-financial impacts) and their likelihood of occurrence. The profile also incorporates information pertaining to the level of controls in place and the corrective actions either required or in place.

The group considers financial risk against targets according to a return on equity (ROE) model, which is considered appropriate as the group's sustainability is founded on profit measures coupled with appropriate capital structures. In this regard, the group's capital structure is managed centrally by the executive, capital markets, risk and cash management teams, and is monitored by the asset and liability committee (ALCO).

Ongoing engagement with stakeholders ensures that external views are represented in the risk identification process. For this purpose, stakeholders are prioritised according to their influence, the time and effort the group invests in managing these relationships, and the group's dependency on them. Transaction Capital's sustainability policy sets out the responsibility for overseeing the relationship with each stakeholder group.

Engagement with stakeholders is considered and discussed at group and divisional 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 group and divisional boards bi-annually.

SIMPLIFIED RISK FRAMEWORK

ESTABLISH OBJECTIVE
- Link to strategy.
- Set financial and non-financial targets and timelines.

IDENTIFY RISK
- Stakeholder engagement.
- Risk workshops.
- Understand key revenue/loss points.
- Relevant data.

QUANTIFY RISK
- Event description.
- Likelihood assessment (per approved risk quantification framework).
- Impact assessment (per approved risk quantification framework).

MITIGATE RISK
- Existing controls.
- Required improvements, including responsibilities and timelines.
- Monitoring.
- Opportunity maximisation.

DETERMINE ADDITIONAL CAPITAL HELD FOR RISK PURPOSES
- Risk exposure quantified.
- Simple 'rule of thumb' calculations.
- Mathematical simulations using actual loss data.
- Market guidance on capital levels including existing investors and/or credit rating agents.

Top risks are identified through an enterprise risk management (ERM) process. The group's top risks, mitigating actions and related stakeholder concerns are as follows:

RISK 1

Funding and capital risk, relating to:

- A challenging debt and capital raising environment due to market events (such as the potential for further sovereign ratings downgrades and generally challenging market conditions).
- Inappropriate deployment of capital.

STAKEHOLDER CONCERNS

- Maintaining appropriate access to funding in an environment where funding may be difficult to obtain.
- Increased cost of funding impacting net interest margin earned.
- Inappropriate allocation of capital resulting from sub-optimal capital management.

MITIGATION

Transaction Capital's balance sheet is ungeared and liquid at a holding company level, with undeployed capital of more than R950 million. While this undeployed capital has a slight impact on ROE, this cost is considered appropriate and acceptable against the favourable benefit of a conservative capital structure in the current economic environment. The group has allocated a portion of this capital to strategic organic growth initiatives in the 2020 financial year.

Should the need arise, the group has access to equity capital from its well-managed and supportive shareholder base. Transaction Capital maintains a strong equity rating in the equity markets.

A dedicated capital markets team manages the group's funding requirements, including a diversified fundraising strategy and a focused strategy for each funding source. The group's funding strategy seeks to diversify funding sources on the basis of:

- Geography (local and international funders).
- Funder type (including banks, asset managers, institutional investors, development finance institutions, impact investors and hedge funds).
- Individual investors.
- Structure type (including securitisation, note programmes, syndicated loan programmes and bespoke funding structures).
- Instrument (such as rated or unrated, listed or unlisted, bilateral and syndicated loans, and bespoke debentures).

Quarterly ALCO meetings provide rigorous monitoring and oversight of funding, concentration, roll-over, interest rate, counterparty, liquidity, currency and regulatory risks. ALCO has approved and established policies and tolerances to manage these risks while providing the flexibility needed to maintain agility in responding to changing economic and business conditions.

The measures mentioned above have led to SA Taxi fulfilling its annual debt requirements for the 2020 financial year.

→ *Details on capital allocation for growth initiatives can be found in the Capital management report. See **page 62**.*

SA Taxi and TCRS will continue to focus on reducing their cost of borrowing through the various funding strategies mentioned above.

Rigorous investment criteria are adhered to (see risk 4), with active treasury management of excess funds.

→ *Further detail can be found in the Capital management report. See **page 62**.*

RISK 2

Information and technology (IT) risks relating to gaps in the integrity and adequacy of IT security, which impacts management decisions, or fails to prevent data loss or protect stakeholder information.

STAKEHOLDER CONCERNS

- Impact on the reliability of reporting, which may negatively affect funders, shareholders and regulators.
- Ability to adapt to a changing environment may be impaired.
- Risk of business continuity and downtime.

MITIGATION

The group ensures that appropriate IT controls are in place to manage, among others, data security, business continuity and change.

Each division has an established, strategically focused IT function.

The group makes significant investments into IT security, including implementing new systems and modifying protocols to ensure that the group and its businesses maintain robust IT structures in a fast-changing IT security environment.

The ARC committee monitors the formalisation and implementation of information security policies to ensure continuous improvement.

Reporting and information for external shareholders is centralised, and a periodic review is performed on external reporting to ensure the integrity and adequacy of the database in which shareholder information is stored.

Sensitive data in the production and development environment is encrypted.

Multi-layered intrusion prevention systems, coupled with intrusion detection systems for early warning, form part of our constantly hardening protection landscape.

RISK 3

Uncertain regulatory environment, including the volume of new or amended regulations being promulgated and the potential for unintended consequences of pro-consumer regulations.

STAKEHOLDER CONCERNS

- Transaction Capital's ability to effectively and efficiently respond to regulatory uncertainty and change.
- The impact of regulatory uncertainty and change on the profitability of the business.

MITIGATION

Ongoing engagement with regulators and appropriate representation on industry bodies is maintained to gain an early understanding of proposed legislation and position Transaction Capital appropriately for change.

SA Taxi concluded the ownership transaction with the South African National Taxi Council (SANTACO) in February 2019. The resulting partnership has assisted SA Taxi in engagements with regulators, supporting the sustainability of its business and the industry as a whole.

Compliance functions are embedded in the divisions that have high levels of regulatory compliance requirements, to act as a resource for regulatory compliance information and provide guidance to avoid regulatory breaches.

The group legal function partners with the divisions to provide guidance on the interpretation of legal and regulatory requirements, and facilitates the process of obtaining independent views from attorneys and senior counsel where doubt exists in the interpretation of regulatory requirements.

Mitigation efforts have resulted in Transaction Capital being largely unaffected by regulatory developments.

RISK 4

Acquisition risk, including the ability to identify, implement and integrate potential acquisitions, and the potential for disproportionate demands on executives' time.

STAKEHOLDER CONCERNS

- Inappropriate identification of target acquisitions and ineffective integration of businesses adversely affecting the returns and value proposition of the group.

MITIGATION

Acquisitions are assessed against Transaction Capital's acquisition strategy and stringent acquisition criteria.

Collectively, the board applies its mind to the funding of acquisitions to ensure an appropriate combination of debt and equity funding that maintains appropriate risk-adjusted returns.

In addition, appropriate board approval is required to conclude transactions. Rigorous implementation processes ensure that Transaction Capital's governance and reporting requirements are adequately met, the progress of which is monitored by the group and divisional boards.

Transaction Capital executives are actively involved in the management and ongoing affairs of acquisitions after a transaction is completed.

Detail on Transaction Capital's acquisition strategy and acquisition criteria can be found in strategic objective 4. See ***page 43****.*

For further detail, refer to Transaction Capital's investment case. See ***page 10****.*

RISK 5

The ability to acquire a sufficient number of **non-performing consumer loan portfolios (NPL portfolios)** at an acceptable price, and to then generate sufficient yield from these acquired portfolios (applicable to Transaction Capital Recoveries (TCR)).

STAKEHOLDER CONCERNS

- Inappropriate return on funds invested to acquire purchased book debts.
- Insufficient pipeline of NPL portfolios.

MITIGATION

Operational initiatives include:

- Substantial investment in and development of technology infrastructure to further improve collections.
- Continuous enhancement of analytics capabilities to leverage superior data and determine the appropriate pricing of NPL portfolios.
- Centralised call centre infrastructure to ensure consistent and efficient collections performance.
- Obtaining appropriate and informed group and divisional executive approval for potential purchases.
- Continuing to develop, expand and diversify this market by:
  - Extending its total addressable market by broadening the category of NPL portfolios traded to include NPL portfolios prior to write-off, those collected via legal process and those sold on a bilateral or recurring contractual basis (forward flow).
  - Expanding the total addressable market by introducing new sellers.
  - Educating clients on the mutual benefits of selling their NPL portfolios, so enhancing their ability to manage their balance sheets in a more sophisticated manner.
  - Diversifying into new geographies (Australia and Europe) on a conservative basis.

RISK 6

The impact of **difficult economic conditions** and stringent regulatory requirements on revenue (applicable to TCRS).

STAKEHOLDER CONCERNS

- Lower growth in revenue.
- Inadequate diversification of revenue by product or sector.

MITIGATION

- TCRS's strategy is to deepen its penetration in its traditional market segments (across banks, retailers and specialist lenders) and grow revenue from adjacent sectors (across insurance, telecommunication and public sectors).
- Revenue streams continue to be developed through innovative, bespoke product offerings and solutions.
- Recent acquisitions by TCRS have further enhanced the diversification of its product offering and geographic footprint.

RISK 7

The group's entry into **select international markets** (applicable to TCRS).

STAKEHOLDER CONCERNS

- Failure to achieve growth and returns in new markets beyond South Africa.
- Inadequate diversification of revenue by geography.

MITIGATION

In Australia:

- TCRS's acquisition of 100% of Recoveries Corporation was a small investment relative to its asset base.
- Development and integration of the business supported by exporting highly skilled and experienced senior managers and an executive from TCRS South Africa into TCRS Australia.
- Deploying technologies proven in South Africa to support higher productivity and operational efficiencies, including business information systems that enable daily monitoring of key performance indicators.
- Diversifying the revenue model through cautious and selective expansion into the acquisition of NPL portfolios as principal.

In Europe:

- Targeting specific niches in the fragmented distressed debt and specialised credit market in Europe.
- Ensuring no concentration risk in any particular portfolio, asset class, asset originator, collection platform or geographic market.
- Entry required no initial investment in goodwill with no costs or risks incurred in business integration.
- Capital risk minimised as TCRS is co-investing with specialist credit managers in assets that are self-liquidating.

A small position in these sizeable markets provides a meaningful growth opportunity for the group.

RISK 8

Diversifying revenue streams across the minibus taxis value chain into other market segments to ensure growth over the longer term (applicable to SA Taxi).

STAKEHOLDER CONCERNS

- Constraints to long-term sustainable growth.

MITIGATION

SA Taxi is deepening its vertical integration in its current market segments while leveraging its existing competencies. This includes:

- Expanding its direct sales retail channel.
- The launch of SA Taxi Auto Parts, incorporating its salvage operations.
- Enhancing its telematics services.
- Broadening its insurance product offering in SA Taxi Protect and expanding its open market client base through its broker network.
- Broadening the rewards programmes offered through SA Taxi Rewards.

Further detail can be found in SA Taxi's business activities, which includes its strategic growth initiatives, and the Q&A with Terry Kier, SA Taxi CEO, which describes SA Taxi's vertically integrated business model. See ***pages 77 and 80****.*

RISK 9

Market forces beyond the group's control (interest rates, exchange rates, fuel prices, limited fare increases and increases in vehicle prices) impacting the affordability of monthly instalments (applicable to SA Taxi).

STAKEHOLDER CONCERNS

- Credit quality of the book and of new business may be negatively impacted.
- Muted collections performance and/or origination activity due to affordability.

MITIGATION

- Credit policies are adjusted appropriately and adhered to stringently, with credit vintages being consistently monitored.
- The division's specialist capabilities, enriched proprietary data and technology support its ability to grant credit to creditworthy customers not being serviced by traditional credit providers, which secures an under-served market segment for SA Taxi.
- The efficiency of SA Taxi's ability to repossess, refurbish and resell vehicles assists in maintaining low levels of ultimate credit loss.
- SA Taxi's partnership with SANTACO is supporting the division's ability to develop highly bespoke and competitive new products to deepen its relevance in the minibus taxi industry. Further, as a shareholder in SA Taxi, SANTACO and its members are participating in a larger part of the industry value chain, enhancing the sustainability of members' businesses and the industry as a whole.
- Intensive and continuous engagement and collaboration with key industry stakeholders and associations support the sustainability of the industry.
- Focus on ensuring maximum reach on collection activity.
- The sale and finance of fully refurbished minibus taxis provides operators with a reliable and affordable alternative to buying new vehicles.
- SA Taxi's rewards programmes assist minibus taxi operators to afford instalments on loans and insurance by providing greater savings through rebates or discounts.
- SA Taxi's ability to manage this risk is reflected in its robust credit performance.

*Further detail on SA Taxi's credit performance can be found in the CFO's report. See **page 52**.*

RISK 10

Original equipment manufacturers (OEMs) as suppliers of vehicles and parts (applicable to SA Taxi).

STAKEHOLDER CONCERNS

- Reliance on OEMs for the supply of vehicles and parts.
- Limited monthly supply of vehicles not being sufficient to meet market demand.

MITIGATION

- Ongoing engagement with OEMs to secure a consistent supply of vehicles, product offerings and parts into the market, and integrate into their supply and repair channels.
- Promoting pre-owned vehicles as a viable alternative for customers.
- The launch of SA Taxi Auto Parts in 2018, with its salvage operations established thereafter, ensures a consistent supply of quality parts at a lower cost.

KEY RISKS

Key risks are those risks that require specific and ongoing operational, governance and strategic management. They differ from top risks (set out on pages 104 to 108) as key risks are anticipated to be ongoing due to the strategy and business model of the group.

Transaction Capital's key risks are as follows:

CREDIT RISK

Credit risk, or default risk, relates to the lender's risk of loss arising from a borrower who does not pay their full contractual instalment. In the case of Transaction Capital, and as a result of its target market, the risk of non-payment is higher than for traditional lenders. This heightened credit risk is controlled through substantial operational capacity, coupled with a higher risk-adjusted yield.

IFRS 9 – Financial Instruments (IFRS 9) was early adopted in the 2015 financial year, resulting in a higher quality of earnings due to a more conservative provisioning methodology against loans and advances, and the amortisation profile of purchased book debts being better aligned with the collection profile. This early adoption reduced balance sheet risk for Transaction Capital.

The loss allowance for a financial instrument is measured against expected credit losses over its lifetime if the credit risk on that financial asset has increased significantly since initial recognition. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. Purchased NPL portfolios are considered credit-impaired assets that are specifically impaired (stage 3) and are measured using lifetime expected credit losses from the onset. These assets remain in stage 3 for the duration of the financial instrument.

Loan portfolios are divided into performing loans and non-performing loans (NPLs). As the group's assets are developmental in nature, in terms of the traditionally under-served market segments it lends to, a higher than average level of arrears is expected, which may not necessarily result in credit loss. The group's impairment provision models take into account both contractual default and recent payment history. Provisions are held against financial assets to cover expected losses in terms of IFRS 9.

At group level, credit risk is monitored by the ARC committee, while SA Taxi and Transaction Capital Business Solutions have their own credit committees responsible for credit risk (of which membership includes group executives), which meet at least quarterly.

Aspects of credit risk that are monitored include changes to origination strategies and channels (including consideration of credit granting criteria), new business approvals, collections strategy and performance.

Credit risk is managed operationally at the time of origination and in terms of collections thereafter. While SA Taxi services the minibus taxi industry exclusively, it has limited exposure to a single counterparty, with the largest exposure to a single borrower being negligible as a percentage of assets exposed to credit risk. Repeat customers represent approximately 29% of origination value, which assists in appropriate credit profiling of repeat customers. In addition, loans originated through SA Taxi's dealership perform better from a credit performance perspective.

In TCR, purchased NPL portfolios have inherent credit risk that is reflected in the heavily discounted purchase price to face value. TCR has its own investment committee responsible for credit risk, which meets as required when portfolios are being considered for acquisition. The approval of an investment in a new NPL portfolio involves the divisional executives and group executive directors, depending on whether its value falls above a certain threshold.

*Further details on SA Taxi and TCRS's credit performance can be found in the CFO's report. See **page 52**.*

LIQUIDITY RISK

Liquidity risk arises when a borrowing entity within the group does not possess adequate cash resources to meet its payment obligations as they fall due, or where it can only access liquidity on materially disadvantageous terms.

Liquidity risk in the group is primarily controlled through cash flow matching. This is achieved through setting the duration and repayment terms of debt facilities at the time of issue to suit the projected cash inflows from assets, and through careful monitoring and managing the maturity of debt that has a lump sum payment due at maturity, where these exist.

The group's positive liquidity mismatch is favourable to debt investors, where asset receipts occur in advance of debt payments, resulting in reduced liquidity risk.

*Further details on the group's positive liquidity mismatch can be found in the Capital management report. See **page 65**.*

The group's funding strategy is directed by the funding requirements established in the divisional budgets and forecasts, and approved by the group and divisional boards. The capital markets team is mandated to raise sufficient capital, taking into account business needs, the specific demands and the state of the debt markets, and the requirements of debt investor mandates. This results in a well-diversified funding base.

*Detail on diversification by funding category and funding structure can be found in the Capital management report. See **page 64**.*

CAPITAL RISK

Capital risk is the risk that the group will have insufficient capital to absorb its losses and fund its growth.

The divisions of the group are not subject to regulatory capital adequacy requirements. Capital is managed using internally generated capital adequacy models, taking into account targeted growth rates, ROE, return on assets, contractual financial covenants, stress testing and targeted credit ratings.

Equity capital is raised at group level where necessary and then allocated to the divisions based on the capital requirements for each funding structure. Goodwill is not included in assets and is deducted from capital in line with market practices when calculating the capital adequacy ratio.

Following the equity transaction with SANTACO, the group has undeployed cash of more than R950 million, which will provide the flexibility for both organic and acquisitive growth opportunities. In addition, Transaction Capital's net asset value increased by approximately 105 cents per share immediately after the implementation of the transaction.

*Detail on the expected allocation of capital to strategic growth initiatives in 2020 can be found in the Capital management report. See **page 65**.*

The dividend policy has been maintained at a cover ratio of 2 to 2.5 times earnings, with the 2019 dividend cover approximating 2.2 times. This supports the strong quality of earnings, which is evident in high cash conversion rates and low balance sheet risk, the stable capital requirements of the group, and the ungeared net position of the holding company. These factors allow for a higher sustainable dividend policy going forward.

INTEREST RATE RISK

Interest rate risk is the risk that arises from fluctuating interest rates.

The group's general interest rate risk management strategy is to match the repricing characteristics of assets to liabilities; thus, if a division originates floating-rate assets, it should issue floating-rate debt or hedge accordingly.

However, each division can deviate from this policy, subject to ALCO approval. In this instance, ALCO reviews the decisions of management and can exercise its discretion to change these decisions if it considers the risk to be out of line with the group's risk tolerance and interest rate forecast. In practice, there are insignificant occurrences of asset to liability interest rate mismatches in the group. Strategies, including hedging, are used to limit losses arising from interest rate basis risk or to take advantage of structurally low rates. Hedge accounting is applied to remove unnecessary volatility from the income statement.

Furthermore, the group typically manages interest rate risk through risk-adjusted excess spread, where asset yields are sufficient to absorb movements in interest rates, as well as interest rate risk strategies.

The group prepares a quarterly interest rate forecast for budgets, forecasts and interest rate decision-making purposes. ALCO monitors the sensitivity of the group's net interest income in response to a parallel yield curve shift. Hedges are considered where undue volatility in earnings can materialise. In addition, loans denominated in foreign currency to be used in South African-based businesses are all fully hedged as Transaction Capital does not take exchange rate risk in these businesses. Further, ALCO distinguishes between hard and soft currencies; businesses owned and operated outside of South Africa in hard currency countries are not hedged as exposure to these currencies and the resultant hard currency earnings are part of Transaction Capital's diversification strategy.

INSURANCE RISK

Insurance operations form an integral part of the group and SA Taxi's income and profits. Insurance risks may include claims exceeding premiums and/or the insurance cover over loan security being inadequate or from an inappropriate party.

An insurance advisory committee meets quarterly, and includes non-executive and executive directors of the group and SA Taxi, as well as independent insurance specialists. SA Taxi Protect utilises a Guardrisk cell captive for insurance operations. In conjunction with Guardrisk, the insurance advisory committee reviews the performance of the insurance operations, its capital requirements and provisioning adequacy, the results of which are reported to ALCO and the ARC committee.

SA Taxi's insurance business, SA Taxi Protect, is the main driver of non-interest revenue in SA Taxi. SA Taxi continues to broaden its product offering, as well as its client base via its broker network that is specifically targeting open market clients. The majority of SA Taxi Finance's clients choose to be insured through SA Taxi Protect, with the remainder insured by other reputable insurers.

The insurance claims ratio is rigorously managed. Significant investments have been made into SA Taxi Auto Parts and its salvage operations, and capacity in SA Taxi's combined autobody and mechanical refurbishment facility is being increased accordingly. These initiatives continue to improve insurance claims ratios.

SA Taxi elected to early adopt IFRS 17 – Insurance Contracts (IFRS 17) in the current financial year. IFRS 17 aligns insurance provisioning to IFRS 9, in that provisions are based on a forward-looking expected loss model rather than an incurred loss model. This early adoption results in a more robust balance sheet due to increased provisions, and eliminates future uncertainty relating to the adoption of IFRS 17 on results.

*Further detail on the nature and impact of the adoption of IFRS 17 can be found in the CFO's report. See **page 57**.*

PROTECTION OF PERSONAL INFORMATION RISK

The group manages and maintains a significant volume of confidential personal information in its daily operations. Through the consideration of relevant International Organization for Standardization standards and best practice, the group has executed appropriate measures to protect this information against loss, damage, destruction and unlawful access. In addition to physical security, key interventions implemented include state-of-the-art firewalls enabled for deep packet inspection, encryption technology, rigorous scanning processes to detect viruses and malware, and ongoing external vulnerability testing. Multi-layered intrusion prevention systems, coupled with intrusion detection systems for early warning, form part of our constantly hardening protection landscape.

The group has adopted a paperless policy, and employee training programmes geared towards IT security and awareness are conducted regularly.

The group invests heavily in IT to ensure that its businesses are efficient and to reduce the risk of disruption. The group constantly assesses and understands new threats, and evaluates and adopts new technology as appropriate.

OPERATIONAL RISK, INCLUDING PEOPLE RISK

To manage operational risk, the group adopts specific operational risk practices that assist management to understand the risks and reduce the risk profile, in line with the group's risk appetite.

The objective in managing operational risk is to increase the efficiency and effectiveness of the group's resources, minimise operational losses and exploit opportunities.

People risk relates to the risk of inadequate management of human capital practices, policies and processes, resulting in the inability to attract, manage, develop and retain competent resources. People risk management includes recruitment procedures for screening employees, training and change management programmes, and human resource and succession planning policies.

The group's human capital policies and statistics are reviewed by the social and ethics committee. This includes employment equity, fair remuneration, equal pay for equal work, public health and safety, and the protection of human rights.

Succession planning is performed by each division, with the nominations committee (and ultimately the board) reviewing succession plans at least annually.

*Additional information on the group's remuneration policy and implementation can be found in the Remuneration report. See **page 114**.*

TRANSFORMATION RISK

As a responsible corporate citizen, the group supports transformation objectives in South Africa that seek to address historical imbalances. The group views the principles of economic and social transformation in South Africa as an integral component of our business. Accordingly, the group has adopted a transformation and Broad-based Black Economic Empowerment (B-BBEE) policy (as a sub-policy of its sustainability policy) to specifically address the group's commitment to transformation and the spirit of B-BBEE.

Many of the group's businesses are required to maintain minimum B-BBEE scores to retain clients. In this regard, TCR, Principa and Road Cover have appropriate ownership transactions in place with the iThemba Trust to augment their B-BBEE scorecards.

While it is not a specific B-BBEE transaction, the SANTACO equity transaction is transformative to SA Taxi, the taxi industry and its constituents. The transaction is expected to be beneficial to SA Taxi's B-BBEE scorecard in the future.

Transformation risk is monitored by the social and ethics committee, as well as the group and divisional boards.

COMPLIANCE RISK

Compliance risk is the risk of legal or regulatory sanctions, financial loss or damage to reputation that the group may suffer as a result of failure to comply with laws, regulations and similar standards and/or internal group policies, authority levels, prescribed practices and ethical standards applicable to its subsidiaries.

Compliance risk is monitored by the ARC committee. Each division with high levels of regulatory compliance requirements has a suitably experienced compliance officer, who remains abreast of all existing and emerging regulations and similar standards applicable to that specific division.

The group retains central legal advisory resources while compliance governance levels at each business remain appropriate. Ongoing engagement with regulators and appropriate representation on industry bodies is maintained to gain an early understanding of proposed legislation and to appropriately position the group for change.

*Legislation applicable to the group and its divisions can be found in the Governance report. See **page 31**.*