



Risk management

Introduction

Effective risk management is fundamental to the business activities of the Group. The Group's approach to risk management is based on defined governance processes and relies on both individual responsibility and collective oversight.

The significant challenges and financial deterioration that the Group experienced during the 2010 financial year highlighted the need for a revised focus on risk management processes and methodologies in line with the new direction of the Group. This prompted a review of the entire risk management framework, increased Board oversight and the strengthening of the Group Risk Committee during the 2011 financial year.

Following the conclusion of the recapitalisation transaction with Mayibuye, which became effective on 10 December 2010, the turnaround plan adopted by the Board under the direction of Mayibuye created further impetus in addressing the key risks of the organisation critical to the stabilisation of the business and in ensuring a solid strategic and operational base is in place to grow the business and return it to sustainable profitability.

Significant progress has been made in this regard recognising that the process is ongoing and receiving priority as part of the Group's strategic imperatives aligned to the overall turnaround plan.

Specific actions to date aimed at addressing the key identified risks include:

- Reconstitution of the Group Risk Committee
- Establishment of a Group Credit Committee
- Establishment of a compliance matrix across all operations and countries
- Appointment of PricewaterhouseCoopers as internal auditors to assist with the identification of control weaknesses and the establishment of a robust internal control environment
- Revision of all credit policies (including new scorecards) and collections processes and methodologies
- System enhancements necessary to remove historic weaknesses and provide real-time management information

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We remain committed to increasing shareholder value by developing and growing our business within our Board-determined risk appetite. The progress in this regard should be seen in context of the turnaround plan currently being implemented.

The Board as a principle seeks to limit adverse variations in earnings and capital by managing risk exposures within agreed levels of risk appetite, always cognisant of achieving a balance between risk and reward aligned with the Group's strategic plans.

Governance structures

Group Board of Directors

The Board of Directors is ultimately responsible for appropriate risk management and internal control mechanisms. The Board monitors the implementation of their strategies and objectives through various Board and executive committees. The Board delegates oversight responsibility to the risk committee to deal with the various risk portfolios, set risk tolerance and monitor the entire risk management process.

Sub-committee oversight

The Board, in discharging its risk management responsibilities, is supported by two sub-committees, namely the Group Audit Committee and the Group Risk Committee. These committees are the oversight bodies for the implementation of adequate and effective internal control mechanisms as well as appropriate risk management frameworks.

Management

Management is responsible for the day-to-day implementation of adequate and effective internal control mechanisms. It is responsible for overseeing the development and maintenance of a methodology to effectively manage risk in the Group and drive a risk management culture throughout the organisation.

Risk Classification

Risks for the Group are classified into the following components:

- Enterprise risk
- Operational risk
- Financial risk
- Reputational risk