



HOTEL PROPERTY INVESTMENTS LIMITED

# RISK MANAGEMENT POLICY

ACN: 010 330 515

**VERSION 6**

May 2018

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## 1.0: DEFINITIONS AND GLOSSARY

Term	Description
AFSL	Australian Financial Services Licence granted by ASIC to the RE
BARC	Board Audit and Risk Committee of HPI Limited
Board	Board of Directors of HPI Limited
Code of Conduct	HPI's Code of Conduct
Directors	The directors of HPI Limited and its subsidiaries
Employee	A person employed by HPI Limited. An Employee includes a director and officer of HPI Limited
HPI Group	The Hotel Property Investments Trust and Hotel Property Investments Limited (HPI Limited or HPI) together form the "the HPI Group"
HPI Limited or HPI	Hotel Property Investments Limited
Responsible Entity "RE"	Hotel Property Investments Limited ACN 010 330 515 or HPI Limited
RECC	Responsible Entity Compliance Committee. This is a committee established by the Board to undertake the functions set out in section 601JC of the Corporations Act
Risk and Compliance Manager	Officer with responsibility for day to day risk and compliance matters and implementing the RE compliance framework. Reports to RECC
Scheme or Trust	Hotel Property Investments Trust ARSN 166 484 377
Securityholder	A registered holder of a stapled security in HPI

## 2.0: PURPOSE

To document the framework, policy and procedures for risk management under the Australian Financial Services Licence ("AFSL") held by Hotel Property Investments Limited ("HPI Limited").

Units in the Hotel Property Investments Trust ARSN 166 484 377 ("**Trust**") are stapled to shares in Hotel Property Investments Limited ("**Company**"). The Company and Trust together form the HPI Group.

HPI Limited acts as responsible entity ("**RE**") for the Trust.

The Board of the HPI Group considers risk management fundamental to maintaining efficient and effective operations and generating and protecting Securityholder value. The management and oversight of risk is an ongoing process integral to the management and corporate governance of the HPI Group.

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The Board of the HPI Group determines the company's tolerance for risk and is committed to a risk management system that balances the need to preserve long term value, prudently manages the properties, maintain good relationships with tenants and facilitates a culture of innovation.

The HPI Group risk management system is designed to assist achievement of the HPI Group strategic and operational objectives. It aligns with the vision, strategy, processes, technology and governance of the HPI Group and provides for:

- (a) appropriate levels of risk taking;
- (b) an effective system for the management of risk across the HPI Group;
- (c) protection against incidents causing personal injury and property damage;
- (d) development of risk management and control plans to reduce or minimise unforeseen or unexpected costs;
- (e) an ability to identify, prioritise and respond to risk in a manner that maximises opportunities;
- (f) reliable financial reporting and compliance with laws, regulations and standards;
- (g) sound insurance management practice;
- (h) protection of assets from planned and unplanned events.

The risk management function is supported by the Board Audit and Risk Committee of HPI Limited (“BARC”).

### **3.0: KEY RISK AREAS**

The areas of potential risk to the HPI Group:

- (a) leasing;
- (b) interest rates and inflation;
- (c) gearing;
- (d) credit and financial worthiness of lessees and significant outsourced service providers;
- (e) portfolio devaluation;
- (f) operations;
- (g) human resources;
- (h) competition;
- (i) regulatory;
- (j) equity prices;
- (k) environmental;
- (l) occupational health & safety;

- (m) financial;
- (n) strategic;
- (o) reputational;
- (p) legal;
- (q) market share and/or size;
- (r) other company risks.

The Company and the company as RE has entered into a stapling deed pursuant to which the shares in the Company are stapled to the units in the Trust.

Most of the material business risks relating to the stapled entity will reside in the Trust.

The HPI Group business is characterised by relatively predictable cashflows from long term lease income from properties, and contracted rental growth between 3% to 4%pa. This lease income is underpinned by 100% occupancy (except for ad hoc vacancies in the speciality stores) and strong credit worthy counterparties (subsidiaries of the Coles Group Limited and Woolworths Limited).

HPI does not operate any of the pubs or speciality stores it owns. Expenses are also relatively predictable and largely fixed in nature (staff, insurance, director's fees and ASX listing expenses). Interest expenses are significantly hedged. HPI has a gearing policy to keep net debt within a 40% to 50% gearing ratio.

The major source of volatility in the income statement and balance sheet arises from six monthly investment property revaluations. This is a non-cash item. At least one-third of the property portfolio is subject to independent valuation each financial year.

As a listed entity, HPI does not calculate unit price as price is established by the ASX public market.

## **4.0: RISK TOLERANCE LEVEL**

The HPI Group risk tolerance will always be limited by its focus on the need to maximise long term distributions and the fundamental long term value of its properties. The HPI Group will adopt a risk management strategy that aims to identify and minimise the potential for loss, while also maximising strategic opportunities for growth in enhanced service delivery and profitability. The Risk Appetite Statement is shown in section 9.2, below.

## **5.0: ROLES AND RESPONSIBILITIES**

### **(a) HPI Limited Board responsibility**

The Board is responsible for the oversight of the risk management framework in relation to the Company and the Trust. This includes: being RE for the Trust, an AFSL holder, policies and procedures related to risk management, risk profile, and assessing the effectiveness of risk oversight and management.

**(b) Board Audit and Risk Management Committee (“BARC”)**

The BARC is responsible for advising the HPI Limited Board on risk management and compliance management and to assist the Board in fulfilling its risk management and oversight responsibilities.

**(c) Responsible Entity Compliance Committee (“RECC”)**

The RECC is responsible for advising the HPI Limited Board on compliance matters. This is a committee established by the Board to undertake the compliance committee functions set out in section 601JC of the Corporations Act. The Committee is supported by a Risk and Compliance Manager who reports directly to the RECC.

**(d) Employee responsibility**

All employees of the Company must report any new risks or changes to existing risks to their managers or supervisors as soon as they become aware of the risk.

**(e) External auditor**

The external auditor is responsible for providing an independent opinion of the financial results of HPI Group and Responsible Entity. In undertaking this role, the auditor also provides comments on the management of risk and assists the HPI Group in the identification of risk.

## **6.0: INTENDED OUTCOMES OF THIS POLICY**

The intended outcomes of the risk management programme include:

1. the establishment of a robust risk management framework and internal control system that enhances the HPI Group’s ability to meet its strategic objectives;
2. improved operating performance and reliable internal and external reporting;
3. increased awareness and management of risk; and,
4. compliance with policies and procedures and applicable laws and regulations.

## 7.0: BREACHES OF THIS POLICY

Failure to comply with this policy and procedures may result in an AFSL breach.

A breach of this policy and procedures is to be handled in accordance with the **Incident and Breach Reporting Procedures**.

## 8.0: OTHER RELATED POLICIES

This document should be read in conjunction with other relevant policies and procedures:

- Code of Conduct
- Event Management and Reporting Policy
- Compliance Plan for the Hotel Property Investments Trust
- Related Party and Conflicts of Interest Policy
- Delegation of Authority Policy

## 9.0: REVIEW OF THIS POLICY

The BARC will review this policy at least annually to ensure it remains relevant, current and compliant with all applicable laws.

Version	Date effective	Approved by	Amendments
3	July 2015	HPI Limited Board	Updated for AFSL application
4	June 2016	HPI Limited Board	Reviewed.
6	June 2017	HPI Limited Board	Reviewed.
7	May 2018	BARC	Reviewed.

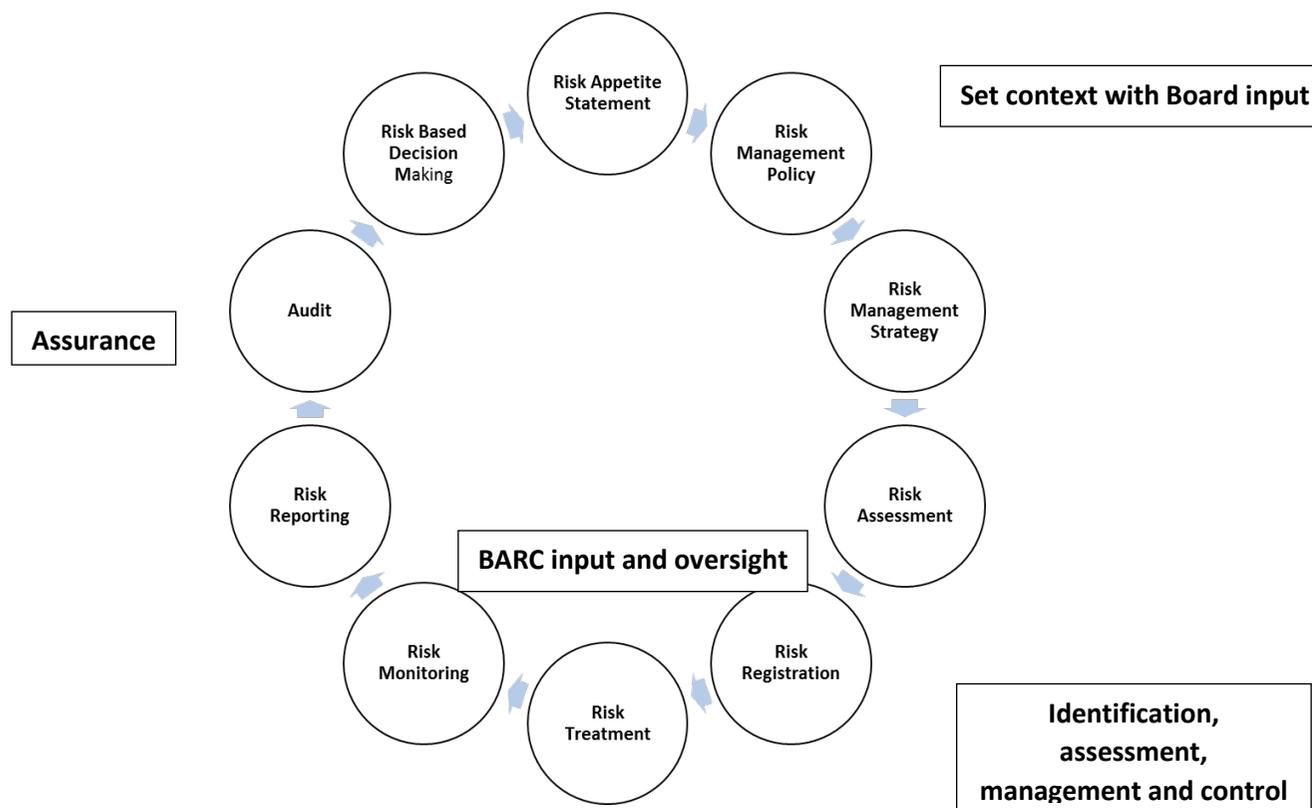
## 10.0: APPENDICES

### 10.1: Risk Management Framework

The Risk Management Framework (“RMF”) is the conceptual foundation of an entity’s risk management strategy, policies, governance and systems to identify, assess, mitigate, report on and manage risk. The components of HPI Group RMF can be depicted thus:

<b>Outcome for Securityholders</b>	Maximisation of long term securityholder value through steadily increasing distributable earnings within a gearing ratio of 40% to 50%
<b>Plans</b>	Corporate Strategy, the Annual Financial Budget and the Capital Expenditure Budget that align and use the RMF as: <ul style="list-style-type: none"><li>▪ input to the annual planning process</li><li>▪ to test annual plans outcomes to ensure they are consistent with the RMF</li></ul>





<b>Governance - context</b>	Board: set and approve Risk Appetite Statement, Risk Management Policy and Risk Management Strategy
<b>Governance - monitoring</b>	Board Audit and Risk Committee
<b>Foundation documents</b>	Code of Conduct, Board Charter, Board Committee Charters, Compliance Plan, Related Party and Conflict of Interest Policy

Note that the RMF was developed in accordance with AS/NZ ISO 31000:2009 –Risk Management Principles and Guidelines.

## 10.2: Risk Appetite Statement

### 10.2.1: Introduction

The Risk Appetite Statement (“RAS”) sets the context for the RMF by expressing the HPI Group attitude towards risk taking and the level of risk it is willing to take to pursue its business strategy and achieve its objectives for Securityholders.

The level of risk is set with quantitative and qualitative limits or tolerances. These limits assist conscious risk based decision making and ensure our business is run within risk tolerance limits. The tolerances are set out in the table at Appendix 10.2.2 below.

### 10.2.2: Risk tolerances

Risk type	Willingness to accept risk				
	Low 1	2	Medium 3	4	High 5
Lessee credit rating likelihood of long term tenancy		<ul style="list-style-type: none"> <li>▪ Investment grade credit rating;</li> <li>▪ Profitable, or otherwise strategic leasehold to tenant</li> <li>▪ High reversionary value at end of tenancy</li> </ul>			
Distribution volatility		<ul style="list-style-type: none"> <li>▪ Low tolerance for reduction in Distributable Earnings</li> <li>▪ Significant portion of debt hedged</li> </ul>			
Capital requirements	<ul style="list-style-type: none"> <li>▪ Low tolerance for breaching banking covenants or undershooting earnings forecasts</li> </ul>				
Reputation	<ul style="list-style-type: none"> <li>▪ Low tolerance for reputational damage</li> </ul>				

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Regulatory standing	<ul style="list-style-type: none"> <li>▪ Low tolerance for poor regulatory standing</li> </ul>				
Financial strength			<ul style="list-style-type: none"> <li>▪ EBIT/Net interest above 3x;</li> <li>▪ Distributions funded from free cashflow</li> <li>▪ Up to 50% drawn debt hedged/fixed</li> </ul>		
Gearing			<ul style="list-style-type: none"> <li>▪ Gearing ratio between 40% to 50%</li> </ul>		

## **Explanation of risk tolerances**

### **Risk tolerance principle (see clause 4.0, above)**

The HPI Group risk tolerance will always be limited by its focus on the need to maximise long term distributions and the fundamental long term value of its properties. The HPI Group will adopt a risk management strategy that aims to identify and minimise the potential for loss, while also maximising strategic opportunities for growth in enhanced service delivery and profitability.

### **Lessee credit rating and lease term**

Low tolerance to dilute current high quality investment property portfolio predominately (circa 95%) leased to investment grade credit (subsidiaries of the Coles Group and Woolworths Limited), with long term lease profile (between 5 and 10 years)

### **Distribution volatility**

Strong Securityholder demand for steadily increasing distributable earnings, supported by strong rental income growth generated with a majority of the Coles leases containing minimum rental increases of circa 4% pa. Therefore, a low tolerance for a reduction in distributable earnings

We will manage our operational activities to continuously grow our distributable earnings per stapled security

### **Capital requirements**

We seek to maintain solid access to debt and equity capital markets by developing long term relationships with lenders, key securityholders and advisors

We seek to fund:

- maintenance capital expenditure from operating cashflow;
- development capital expenditure from debt facilities;
- acquisitions a mix of debt and equity, within our current gearing policy range

### **Reputational**

We will manage/avoid situations that could have a negative impact on our reputation

### **Regulatory standing**

We will manage/avoid situations that could have a negative impact on our regulatory standing

**Financial strength**

In addition to financial metrics set out in the table above, we seek to retain our current credit assessment by our Banking Syndicate.

Our risk tolerance is set in the middle range, given our gearing ratio is generally higher than many other A-REITs. Our higher gearing ratio is supported by high occupancy, long lease terms contracted revenue growth and solid counterparty credit ratings

**Gearing ratio**

We seek to maintain a gearing ratio range lower than that required under our debt facilities

**Refinancing**

We seek to monitor and maintain the availability of debt funding and refinancing options to ensure risk is minimised through the debt maturity profile.

**Hedging**

Hedging of interest rate positions and fixed rate debt is used to mitigate the variability of cash flow

### 10.3: Risk Management Strategy

#### 10.3.1: Objective

The objective of this Risk Management Strategy (“RMS”) is to set out how the HPI Group identifies, manages, monitors, and reports on the Material Risks of its business operations.

It is intended that the HPI Group Risk Management Framework (“RMF”) will apply to all significant areas of Material Risk (see Appendix 10.3.2 below). Details on the RMF are set out in Appendix 10.2, above.

The HPI Group has implemented procedures and controls to keep its RMS up-to-date at all times, and to review it at least once a year.

The Board considers recommendations from BARC for changes to the RMS.

Regular reviews of the RMS, including the Risk Register (see Appendix 10.5 below) are carried out according to a risk based review calendar on a rolling twelve month cycle and the results reported BARC on a quarterly basis.

#### 10.3.2: Material Risks

A ‘Material Risk’ means a risk with potential to have a material impact on the HPI Group business operations, and/or its Responsible Entity (“RE”) obligations to or the interests of members the Hotel Property Investments Trust (“Trust”) to whom the RE has legal and fiduciary obligations.

The key categories of Material Risks that are managed by RMF are:

Material Risk type	Risk description	Treatment
Strategic business risk	<p><b>Risk:</b> failure to satisfactorily achieve objectives contained in the HPI Group Annual Business Plan</p> <p><b>Loss:</b> (actual or anticipated) is as a result of:</p> <ul style="list-style-type: none"> <li>▪ adverse strategic business decisions; improper implementation of strategic</li> </ul>	<ul style="list-style-type: none"> <li>▪ Business Plans and Annual Budgets</li> <li>▪ Outsourcing Policy</li> <li>▪ Service Agreements</li> </ul>

	<p>decisions; or</p> <ul style="list-style-type: none"> <li>▪ a lack of appropriate responsiveness to industry, economic, market or demographic changes or exposures.</li> </ul> <p><b>Examples:</b></p> <ul style="list-style-type: none"> <li>▪ Expanded services or client offers not appropriately supported; new fund or product launch failure; inadequate resources; adverse changes to liquor licences; adverse change in strategic direction by major tenant (Coles Group)</li> <li>▪ A property development does not achieve the projected returns due to unforeseen risks or inaccurate investment assessment</li> </ul>	
<b>Material Risk type</b>	<b>Risk description</b>	<b>Treatment</b>
Governance risk	<p><b>Risk:</b> failure to meet the RE’s fiduciary obligations and duties to members due to inadequacy of RE internal governance processes (including processes relating to competence and accountability for RE decision making).</p> <p><b>Loss:</b> (actual or anticipated) is as a result of fiduciary breaches.</p> <p><b>Examples:</b> mis-managed conflicts of</p>	<ul style="list-style-type: none"> <li>▪ RMF</li> <li>▪ RECC</li> <li>▪ Code of Conduct</li> <li>▪ Related Party and Conflicts Management Policy</li> <li>▪ Compliance Plan</li> <li>▪ Board &amp; Committee</li> </ul>

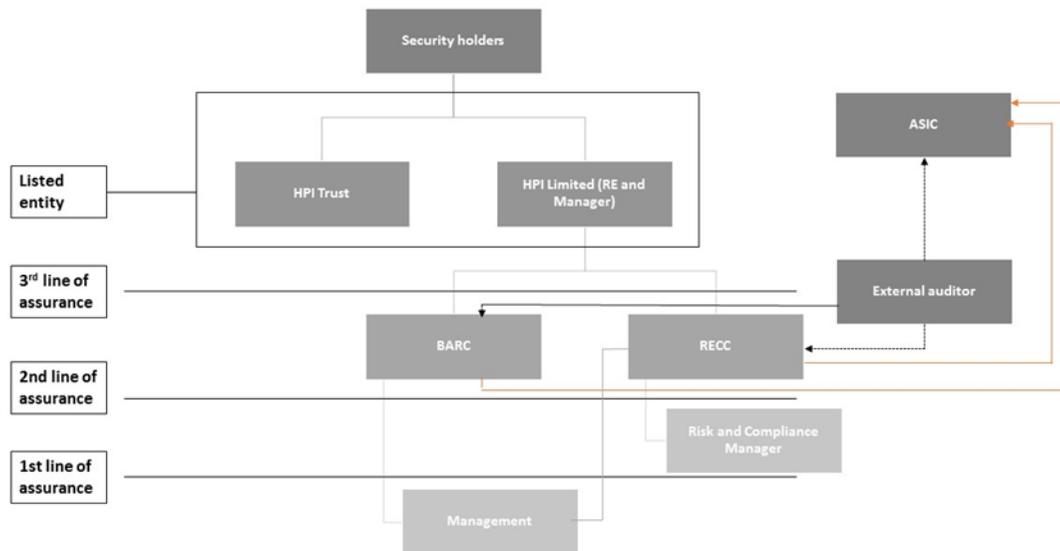
	<p>interest; operating outside delegations of authority; operating outside of agreed Risk Appetite; lack of accountability and transparency in decision-making; lack of fitness and propriety of HPI and/or service providers; in adequate compliance and risk management programs and systems; inadequate key staff</p>	<p>Charters</p> <ul style="list-style-type: none"> <li>▪ Delegation of Authority</li> <li>▪ Valuations Policy</li> <li>▪ Outsourcing Policy</li> <li>▪ Service Agreements</li> <li>▪ Audit Plans</li> </ul>
Investment Governance risk	<p><b>Risk:</b> failed investments or investment under-performance</p> <p><b>Loss:</b> (actual or anticipated) is as a result of failure to properly discharge the RE duties to members. Examples are market risk, interest rate risk and liquidity risk.</p>	<ul style="list-style-type: none"> <li>▪ Investment Governance process</li> <li>▪ Valuations Policy</li> <li>▪ Due diligence program</li> </ul>
Insurance risk	<p><b>Risk:</b> inadequate or failed insurance either held by the Company or Trust.</p>	<ul style="list-style-type: none"> <li>▪ Annual review by BARC of the insurance program</li> </ul>
Financial risk (including liquidity risk)	<p><b>Risk:</b> inadequate cash flows to meet financial obligations to Banking Syndicate or Securityholder distributions</p> <p><b>Examples:</b> failure of significant tenant; adverse expense levels; significant increase in interest rates</p>	<ul style="list-style-type: none"> <li>▪ Business Plans and Annual Budgets</li> <li>▪ Investment Governance process</li> </ul>

Refinancing Risk	<b>Risk: Inability to re finance existing debt</b>	<ul style="list-style-type: none"><li>▪ Management formulation of debt strategy in conjunction with external consultants and the Board.</li><li>▪ Board level reporting</li><li>▪ Management of debt maturity profile</li></ul>
Interest Rate Risk	<b>Risk: Adverse interest rate movements and ineffective hedging</b>	<ul style="list-style-type: none"><li>▪ Management formulation of hedging strategy</li></ul>

Material Risk type	Risk description	Treatment
Operational risk	<p><b>Risk:</b> loss from inadequate or failed internal processes, people or systems, or from external events.</p> <p>Operational risk includes legal but excludes strategic and reputational risk.</p> <p><b>Examples:</b> outsourcing and counterparty failure or mis-performance; transaction and execution errors and failures; mis-compliance breaches or failures</p>	<ul style="list-style-type: none"> <li>▪ RMF</li> <li>▪ RAS</li> <li>▪ RMS</li> <li>▪ Outsourcing policy</li> <li>▪ Valuations policy</li> <li>▪ Compliance plan</li> </ul>
Fraud risk	<p><b>Risk:</b> of financial or other loss due to internal or external fraud.</p> <p><b>Example:</b> include theft and systems abuse.</p>	<ul style="list-style-type: none"> <li>▪ RMF</li> <li>▪ RAS</li> <li>▪ RMS</li> <li>▪ Compliance plan</li> <li>▪ Whistleblower program</li> </ul>

### 10.3.3: Risk Management Reporting

The HPI Group’s risk management reporting is based on the ‘three levels of assurance’ model. A diagram showing the three levels of assurance is set out below:



This model, which supports the relationship between the Board, BARC, RECC, Management and the Risk and Compliance Manager, is summarised as follows:

- First level – Management is the ‘first level’ of risk and compliance assurance, where management is responsible for managing risk and compliance issues in their business on a day to day basis. The Managing Director must report any significant change in risks to the Chairman of BARC
- Second level – The Risk and Compliance Manager is the ‘second level’ of assurance and assists Management in managing its risks and satisfying its obligations. The Risk and Compliance Manager monitors and tests key controls, and monitors the RE’s compliance with its obligations under its AFSL and the Scheme. The Risk and Compliance Manager reports directly to RECC; and
- Third level – The ‘third level’ of assurance is the external audit program comprises two parts. Firstly, the external audit of HPI Limited and its Schemes overseen by BARC. Secondly through the auditors’ independent review and oversight of risk and compliance in relation to the Scheme. This Compliance Plan audit is overseen by RECC. The Chairman of BARC and RECC is to be one person who will be an independent non-executive director of HPI Limited.

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The outcomes of these external audits are communicated to BARC and RECC, RE Board, Management and the Risk and Compliance Manager.

Given the nature of the majority of the Scheme's assets (freehold property) and relative simplicity of its business model, the HPI Group considers an internal audit function to supplement the third level of assurance is not currently required. This decision will be regularly reviewed by the HPI Group or there is substantial change in its circumstances.

10.3.4: Details of key risk management roles and responsibilities

Role	Requirements	Responsibility
<b>HPI Limited Board</b>	As set out in the Corporations Act, Regulatory Guidance, general fiduciary principles, Code of Conduct and the Board Charter	<ul style="list-style-type: none"> <li>▪ Oversight of the business operations including ensuring compliance with all relevant laws and regulations</li> <li>▪ AFSL duties and obligations</li> <li>▪ Responsible Entity for the Trust</li> <li>▪ Risk governance and risk culture; “setting the tone at the top”</li> <li>▪ Approval of RMF, RAS and RMS</li> <li>▪ Nomination matters, including the following, from time to time at its regularly scheduled meetings:                             <ul style="list-style-type: none"> <li>– criteria for Company Board membership and identify specific individuals for nomination;</li> <li>– processes for the review of the performance of employees, individual Directors, Board Committees and the Board as a whole; and</li> <li>– succession plans.</li> </ul> </li> <li>▪ Investment management governance</li> </ul>
<b>Company</b>	A senior role requiring governance	<ul style="list-style-type: none"> <li>▪ Preparation of papers, agendas, minutes, meeting management,</li> </ul>

Role	Requirements	Responsibility
<b>Secretary</b>	expertise and experience	diaries <ul style="list-style-type: none"> <li>▪ Managing Registers for delegations related parties and conflicts of interest</li> <li>▪ Coordinate Annual Board and Committee Calendar</li> </ul>
<b>BARC</b>	As set out in the BARC Charter.	Assist the Board in fulfilling its corporate governance and oversight responsibilities relating to: <ul style="list-style-type: none"> <li>▪ the integrity of the Company's and the Trust's financial reporting;</li> <li>▪ the effectiveness of the Company's and the Trust's systems of financial risk management and internal control;</li> <li>▪ the external audit functions;</li> <li>▪ the Company's and Trust's risk profile and risk policy; and</li> <li>▪ the effectiveness of the Company's and Trust's risk management framework and supporting risk management systems</li> </ul>
<b>RECC</b>	As set out in the RECC Charter	<ul style="list-style-type: none"> <li>▪ The Board has delegated compliance committee responsibilities to the RECC</li> </ul> In accordance with its Charter the RECC is responsible for overseeing its compliance framework and AFSL

Role	Requirements	Responsibility
		obligations, including the compliance plan for the Trust
<b>HRC</b>	As set out in the HRC Charter	<ul style="list-style-type: none"> <li>▪ Remuneration packages and policies applicable to Directors and senior employees</li> </ul>
<b>Managing Director</b>	<p>The most senior executive role requiring expertise in investment management experience and the ability to embed corporate strategy and regulatory requirements into operational requirements</p> <p>Must have sound understanding of property markets, capital markets, investment instruments and structuring</p> <p>Must be able to understand and manage complex commercial issues and manage Employees and stakeholders (such as regulators and service providers) to achieve the HPI Group strategic outcomes</p>	<ul style="list-style-type: none"> <li>▪ Operational risk control environment</li> <li>▪ Day to day management of risk arising in the business operations (including material outsourced service providers) within the HPI Group risk tolerances. Responsible Manager under AFSL</li> <li>▪ Reporting material changes in the risk environment to the Board and BARC</li> <li>▪ Devising and executing remedial risk management controls</li> <li>▪ Overseeing the investment monitoring, review and valuations program to ensure that all investment performance and risk information is effectively reported through to the Board and its Committees</li> </ul>
<b>Risk and Compliance Manager</b>	A senior role requiring expertise in risk and compliance in financial services and the ability to embed corporate strategy and regulatory requirements in to operational	<ul style="list-style-type: none"> <li>▪ The risk program (including the Compliance Plan) to ensure that all information is reported through to the Board and its committees in a timely and</li> </ul>

Role	Requirements	Responsibility
	requirements. Must be able to understand and manage complex commercial issues and manage stakeholders (such as regulators and service providers) to achieve HPI Group strategic outcomes.	effective way to facilitate and support decision making.
<b>Chief Financial Officer</b>	A senior role requiring expertise in finance, accounting and control and financial reporting in a property or financial services environment. Must be adept with managing people and stakeholders and have a sound understanding of capital markets, investment instruments and financial risks and their control.	<ul style="list-style-type: none"> <li>▪ Maintain adequate financial systems and internal controls</li> <li>▪ Financial reporting and monitoring to Board, Securityholders and Debt providers</li> <li>▪ Financial risk management reporting and control</li> <li>▪ Decision support for Managing Director and Board</li> </ul>

### 10.3.5: Applying the risk management method

#### Step1: Establish the risk management context

The risk management context for the HPI Group’s business operations is established through its business planning process using the Risk Appetite Statement, Risk Management Strategy and this policy.

#### Step 2: Identify and understand risks

Risk is discovered and identified by top-down and bottom-up processes which collects risk information based on anticipation of what situations might exist or occur that affect achievement of business objectives. These processes:

- are used by the HPI Board when reviewing business and strategic planning prepared by senior management;
- are used in risk consultation workshops run by senior management

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- require reporting from Employees to senior management on the alignment of risk controls with operational activities
- require reporting from outsourced service providers' alignment of risk controls with operational activities
- the Risk and Compliance Manager will collate reporting from risk consultation workshops, Employees and outsourced service providers for inclusion into reporting to BARC

**Step 3: Analysis and measurement of risks**

Risks are analysed and measured using the risk matrices shown in appendix 10.4 below. The use of these matrices determine the level of risk by identifying the factors that affect the likelihood and consequences of the risks occurring by:

- Establishing inherent risk using the likelihood and consequence matrices in Appendix 10.4 below
- Evaluating the current control environment
- Establishing residual risk. Residual risk is determined by the application of the likelihood and consequence tables to the risk matrix at appendix 10.4 having considered the efficacy of all available controls and other risk treatments
- Assessing controls for effectiveness which can be demonstrated by documented or recorded processes. To receive more than a rating of “adequate” controls must be subject to a transparent monitoring system. The table of control effectiveness ratings is shown below:

Rating	Effectiveness
Very good	The control is always reliable, efficient and operates within documented processes and is easy to audit.
Good	The control is mostly reliable and documented processes demonstrate the control is effective and can be audited.
Adequate	The control is usually reliable but not always effective or processes do not fully demonstrate the application or effectiveness of the control making audit difficult.
Poor	The control is unreliable or, even if usually reliable, is ad hoc or poorly documented and does not leave an audit trail.

- Applying treatments to improve the control environment according to the priority arising out of the evaluation process. Risk analysis results are compared against risk criteria (including the Risk Appetite Statement) to determine which risks require treatment and one or more treatment options for modifying the risk are identified and implemented.

**Step 4: Risk treatment**

Risk analysis results are compared against risk criteria in the Risk Matrix (see Appendix 10.4) and Risk Appetite Statement (see Appendix 10.2) to determine which risks require treatment and one or more treatment options for modifying the risk are identified and implemented.

**Step 5: Risk monitoring and review**

Measurement of residual risk by using the Risk Matrix (see Appendix 10.4) forms the basis of pre-determined risk management outcomes including monitoring and review outcomes as follows:

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<b>EXTREME</b>	Extreme risk. Unacceptable. Immediate general management focus to be and senior management responsible for immediate reporting to BARC and implementing corrective actions to reduce risk level to MODERATE
<b>HIGH</b>	High risk. Undesirable. General management focus to be maintained and senior management responsible for immediate reporting to BARC and implementing corrective actions to reduce risk level to MODERATE
<b>MODERATE</b>	Medium risk. Acceptable with controls. Senior management responsible for implementing appropriate risk management controls to reduce the risk to the lowest practicable level. Risk mitigation to LOW is optional and needs to be assessed for each risk
<b>LOW</b>	Low risk. Acceptable as it is. Manage by routine procedures

### 10.4: Risk Classification Matrices

The relative importance to our strategy and operations of each risk identified is measured according to the likelihood of the risk occurring and the consequence should the risk occur. The measurement determines the risk management outcome. See Appendix 10.3.5 for an explanation of how to apply the risk management method.

<b>Likelihood scale of risk occurring</b>		
High	Short odds. The event/threat (being a set of conditions that can lead to an undesirable event, accident, loss or breach of the law) is expected to occur in most circumstances (more than once per year)	<b>3</b>
Possible	Moderate odds. The event/threat (being a set of conditions that can lead to an undesirable event, accident, loss or breach of the law) will probably occur at some time (once every 5 years)	<b>2</b>
Low	Long odds: The event/threat (being a set of conditions that can lead to an undesirable event, accident, loss or breach of the law) may occur in exceptional circumstances (less than once in 15 to 20 years)	<b>1</b>

<b>Consequence scale of risk if it eventuates</b>		
Catastrophic	Huge financial loss: asset or profit impact. Serious public outcry. National media coverage. Cessation of business for a significant period of time. Licence suspension. Litigation including class actions  >\$5m distributable earnings impact	<b>3</b>
Material	Significant financial loss. Some media coverage. Cessation of	<b>2</b>

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	business for several days. Serious licence breach. >\$1m<\$5m distributable earnings impact	
Other	Low to medium financial loss. Minor media coverage. Minor disruption of business. Licence breach. <\$1m distributable earnings impact	<b>1</b>

The matrices are combined to create a Risk Matrix, where risks are categorised Extreme, High, Moderate and Low, using the following table

Risk matrix (likelihood/consequence)	Consequence		
	Other	Material	Catastrophic
Likelihood	1	2	3
High	3 MODERATE	HIGH	EXTREME
Possible	2 LOW	MODERATE	HIGH
Low	1 LOW	MODERATE	HIGH

<b>EXTREME</b>	Extreme risk. Unacceptable. Immediate general management focus to be and senior management responsible for immediate reporting to BARC and implementing corrective actions to reduce risk level to MODERATE
<b>HIGH</b>	High risk. Undesirable. General management focus to be maintained and senior management responsible for immediate reporting to BARC and implementing corrective actions to reduce risk level to MODERATE
<b>MODERATE</b>	Medium risk. Acceptable with controls. Senior management responsible for implementing appropriate risk management controls to reduce the risk to the lowest practicable level. Risk mitigation to LOW is optional and needs to be assessed for each risk
<b>LOW</b>	Low risk. Acceptable as it is. Manage by routine procedures

## 10.5: Risk identification and categorisation chronology

### Chronology of key events

#### 14 May 2014

Initial risk management workshop conducted, facilitated by KPMG utilising its Risk Review Framework. That exercise led to the development of a preliminary Risk Matrix

#### 19 May 2014

Board reviewed and discussed the Preliminary Risk Matrix, with several amendments identified and made

Re-categorised risks into “Catastrophic”, “Material” and “Other”

#### 22 September 2014

Board reviewed updated Risk Matrix and requested further amendments be made including completion of “assessment of likelihood”

#### 19 December 2014

Board again reviewed updated Risk Matrix and requested that a “Date Revised” field be added and that Management schedule an annual review of the Risk Matrix into the BARC annual calendar

#### 20 May 2015

Annual Review of Risk Matrix by BARC

#### 17 June 2015

Updated Risk Management Policy, with a Risk Management Framework, Risk Appetite Statement and a Risk Management Strategy tabled and discussed by HPI Limited Board

#### 27 July 2015

Revised Risk Management Policy approved by HPI Limited Board

#### 13 May 2016

#### May 2018

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Review updated Risk Management Policy

**13 May 2016**

Review updated Risk Management Policy by BARC

**15 June 2016**

Revised Risk Management Policy reviewed by HPI Limited Board

**29 June 2016**

Revised Risk Management Policy Approved by HPI Limited Board

**16 May 2018**

Revised Risk Management Policy Approved by HPI BARC