



# Risk Management Framework

Version 1

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Approved by the Board on 25 May 2005

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## **1. Overview of Risk Management Framework**

### **1.1 Introduction**

This risk management framework describes Infracorp Limited and its subsidiaries' (IFC Group) risk management system. The risk management system refers to the systematic method of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risks associated with providing general product advice to wholesale clients and issuing, applying for, acquiring, varying or disposing of a financial product on its own behalf and on behalf of others by the IFC Group to minimise losses and maximise opportunities.

The Board of Directors of the IFC Group is committed to ensuring the adequacy of the IFC Group's risk management systems and to ensuring that risks are adequately and appropriately addressed in a timely manner.

It is the policy of the IFC Group to adhere to this Framework at all times.

### **1.2 Overview of Risk**

Risk is an integral part of the IFC Group's businesses. Management of that risk is therefore critical to the IFC Group's continuing profitability. Strong independent prudential management has been a key to the IFC Group's success over many years. Where risk is assumed it is within a calculated and controlled framework.

The main risks faced by the IFC Group are economic risk, market risk, regulatory risk, operational risk, and legal and compliance risk. Responsibility for these risks lies with the Audit, Finance, Risk and Compliance Committee (AFRCC) who adhere to the IFC Group's risk charter. It is the responsibility of the AFRCC to ensure appropriate assessment and management of these risks within the IFC Group's risk management framework.

Risk analysis is essentially a "what if" analysis where various scenarios are visualised. It's a systematic use of known information and data to determine how and when incidents can or may occur and the size of their consequences. The management of these risks are a very important part of the management process. This process includes wide aspects of managing and is easiest solved in teams, divided by their skill and knowledge in particular areas. The process of risk analysis and management is a process of continual improvement, which means that there is never only one solution of a problem, there are always improvements that can be done to upgrade (improve) the quality of the treatment of the risks.

## 1.3 Principles of Risk Management

The principles of the IFC Group's risk management policy are:

- Hands-on management by a board with complementary skills, where each member is proficient in all portfolios.
- Board authority is required for risk management.
- Centralised prudential management as AFRCC responsibility covers the whole of the IFC Group. Therefore it can assess risks from a Group-wide perspective and ensure a consistent approach across all operating areas.
- Operating areas cannot undertake new businesses or activities, offer new products, or enter new markets, without first consulting the AFRCC. The committee identifies, quantifies, and assesses all risks and sets prudential limits. Where appropriate, any risk acceptance decisions and limits are approved by the Committee and the Board.
- AFRCC continually reviews risks to account for changes in market circumstances and the IFC Group's operating areas.
- Hands-on management by a board with complementary skills, where each member is proficient in all portfolios.
- A management structure of experienced personnel .
- A skilled team with extra resources sought from external consultants, which enables the IFC Group to maintain a strict focus on its core business.
- Pre-selling of wholesale units in trust to minimise and spread project risk.
- A national and international marketing network.
- Minimisation of financial risk through a sound balance sheet.
- Stand-alone project finance for each project.
- Flexibility in the project finance due to the continued support of many of Australia's major banks.

The AFRCC recognises that risk management is an integral part of good management practice. As such, risk management is fully integrated into IFC Group's management and strategic planning processes. This risk management framework is intended to document the risk management policies and procedures that have been adopted.

## 1.4 Risk Management Framework

The methodology set out in the Australian and New Zealand Standard on Risk Management Systems (AS/NZS 4360-1999) has been used as a benchmark in preparing this risk management framework and may be used to assist in monitoring and implementing risk management measures. The key elements of the IFC Group's risk management system are shown below.

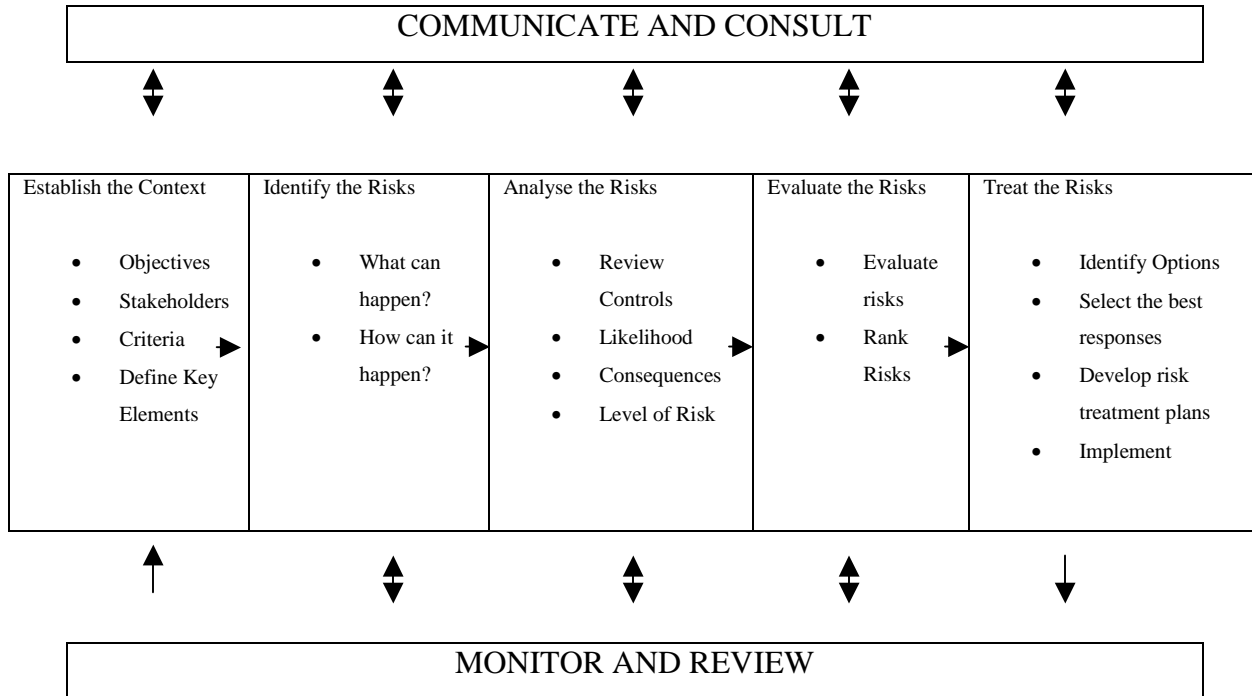


Diagram 1: AS/NZS 4360:1999

## 2. Organisational structure

The Board of Directors has established a functional organisational structure to support its risk management processes and a member of the Board of Directors (Responsible Officer) is responsible for risk management matters (refer Annexure A).

The Board of Directors recognises that risk management is an integral part of good management practice. Risk management is integrated into the IFC Group's philosophy, practices and business plan and a culture of compliance is promoted.

## 3. Risk Management Process

The objective of the IFC Group's Risk Management procedure as mentioned above follows the principles of AS/NZS 4360:1999. The aim is to reduce risk and capture opportunities. Risk management is an integral part of the management process. The Board of Directors oversees the establishment and implementation of the risk management system and annually reviews the effectiveness of the system. The Board supports the risk management practice within IFC Group, but risk management remains the responsibility of the AFRCC.

The main elements of the risk management process are as follows:

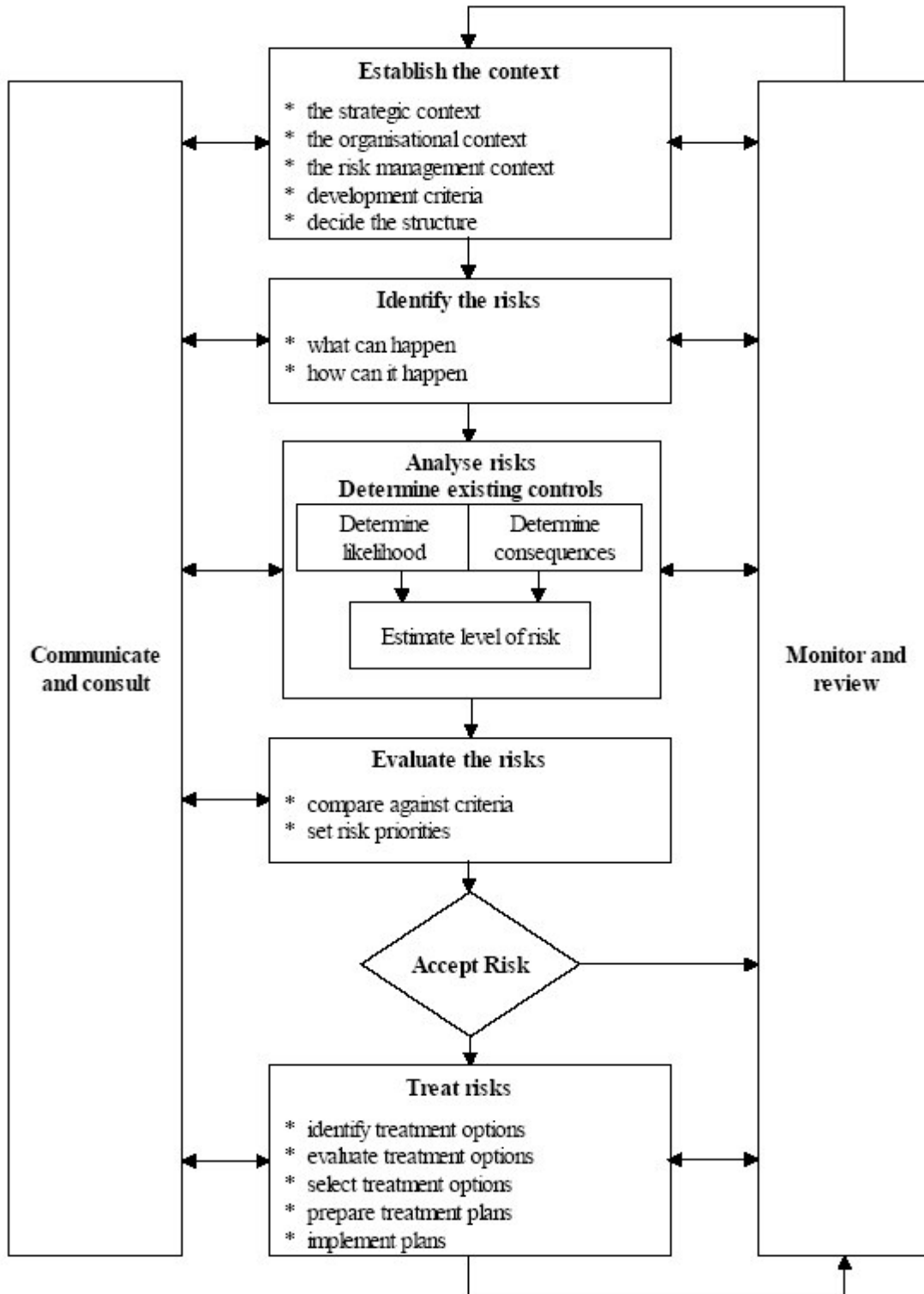


Diagram 2: IFC Group's Limited Risk Management Process

## 4. Establish the context

### 4.1 Risk Management Context

The IFC Group is a start up that will be providing financial services to wholesale clients. The financial products that the IFC Group intends to provide services that are currently limited to securities and managed investment schemes (excluding IDPS).

This Framework addresses the following sources of risk:

- (a) **financial and market risk** (including investment risk, financial risk, liquidity risk and derivatives risk).

Investment risk refers to the possibility of an adverse movement in the value of the on-balance sheet assets and/or certain off-balance sheet obligations of the IFC Group. Investment risk derives from a number of sources, including market risk (eg equity, interest rate and foreign exchange risk), credit risk and investment concentration risk.

Credit exposures can increase the risk profile of the IFC Group and adversely affect its/their financial viability. Credit exposure in this context includes both on-balance sheet and off-balance sheet exposures (including guarantees, derivative financial instruments and performance related obligations) to single and related counterparties.

- (b) **operational risk** (including legal and reputational risk).

In this context, operational risk covers, but is not limited to, issues such as technology risk (including processing risks), reputational risk, fraud, compliance, outsourcing, business continuity planning, legal risk and key person risk.

For more information in relation to IT system risk, see the Information Technology Capacity Policy.

- (c) **market integrity.**

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## 5. Risk Identification

Each of the key elements established in the previous step must be systematically examined to identify what the risks are and how they may occur. Methods of identifying risk include:

- Brain storming;

- Checklists;
- Focus IFC Group discussions;
- Examining similar or previous activities/projects; and
- Surveys and questionnaires.

The objective of this exercise is to generate a comprehensive list of events which might affect each element of the structure referred to above. These risks are then considered in more detail to identify their potential impact.

The IFC Group has undertaken a systematic process (including questionnaires and checklists, judgements based on experience and systems analysis) to identify risks that need to be managed. Certain material risks have been identified and these are set out in the Tables in Annexure B of this Framework.

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## 6. Risk assessment

The IFC Group assesses the risks identified. This assessment process involves a consideration of the following:

- (a) the likelihood of the event occurring;
- (b) the impact of the identified risk on the IFC Group if it occurred;
- (c) combining the likelihood and impact factors to determine the overall risk.

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## 7. Risk evaluation

The Board of Directors has established the following criteria to evaluate levels of risk:

- (a) **quantitative criteria** - the materiality thresholds used for conducting the audit of the Company have been adopted being profit and loss and cash flow materiality is set at an individual line level with all individual items over \$1000 against budget being identified for consideration. These quantitative materiality benchmarks are not a substitute for any qualitative assessment which takes account of the fact that certain risks are unquantifiable.
- (b) **qualitative criteria** - this criteria takes account of the fact that certain risks are unquantifiable. The qualitative criteria adopted is whether it would adversely impact on the Company's brand or adversely impact its shareholders or the consumers who use the Company's services.

These criteria will be reviewed every six months to reflect any changes in the operations and financial position of the Infracorp Group.

Risk evaluation involves a decision as to whether a particular risk is acceptable or not, taking into account:

- (i) existing controls;
- (ii) the cost consequences of managing the relevant risk or leaving it untreated;
- (iii) benefits and opportunities presented by the risks; and
- (iv) the risks borne by other stakeholders.

The outcome of this process is a list of risks with agreed priority ratings from which decisions can be made about acceptable levels of tolerance for particular risks and where greatest effort should be focused. If the risks fall into the low or acceptable risk categories they may be accepted without any further treatment (although, such risks should still be monitored to ensure they remain acceptable).

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## **8. Risk treatment**

The IFC Group has appropriate control mechanisms in place to ensure that the risks identified and assessed are appropriately and adequately managed. These control mechanisms are set out for each identified risk in Annexure B.

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## **9. Monitoring and review**

The Responsible Officer will ensure that this Framework is reviewed regularly to ensure it provides an adequate framework to monitor the operating circumstances that may impact on the risk profile of the IFC Group.

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## **10. Communication and reporting**

Appropriate personnel are provided with a copy of or access to this Framework and receive any necessary training in respect of relevant risk management systems.

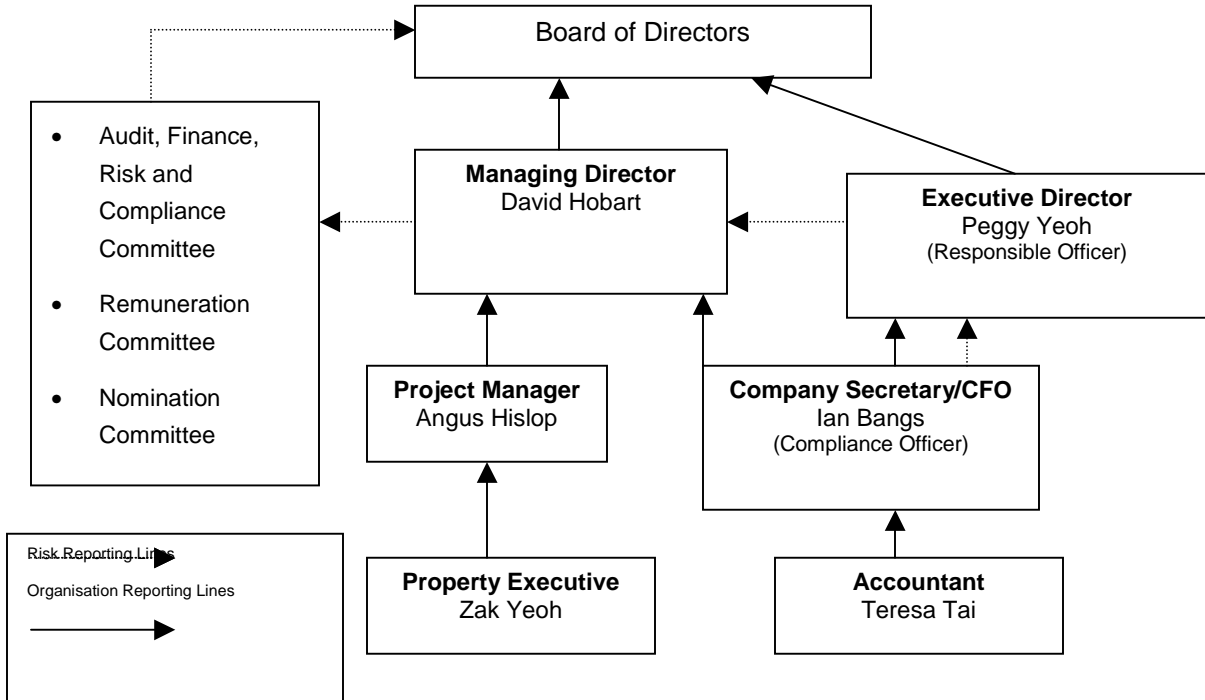
The Responsible Officer reports to the AFRCC and the Board of Directors (at least annually and otherwise as necessary) on the performance of the risk management systems of the IFC Group.

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## **11. Record keeping**

The Responsible Officer is responsible for ensuring that adequate records are kept of each stage of the risk management system to enable the process to be audited.

## Annexure A Organisational Risk Reporting Structure





## Annexure B Risk assessment and management matrix

<b>Source of risk: financial and investment risk (including market risk, liquidity risk and derivatives risk)</b>					
<b>Financial risk</b>					
<b>Identification</b>	<b>Assessment</b>		<b>Evaluation</b>	<b>Treatment</b>	
Type of financial risk	Likelihood	Impact	Overall risk	Priority	Control
<u>Economic:</u> Inflation, interest rates, general economic changes, industrial disputes and political factors in Australia and overseas are likely to affect the Australian property market	D	Maj	Medium	Low	6, 12 and 18
<u>Interest Rate Volatility:</u> Upward movement of interest rates may adversely affect the IFC Group's costs and revenues through an increase in the cost of borrowed funds for both the IFC Group and prospective purchasers of the IFC Group's properties.	D	Maj	Medium	Low	6, 12 and 18
<b>Investment risk (including market risk, for example, equity, interest rate and foreign exchange risk and investment concentration risk)</b>					
<u>Property Sector Risk:</u> The IFC Group's operations are predominantly focused on the NSW property sector. Within this sector though, its business operations vary from commercial, residential, industrial to broad acre land subdivisions. While the IFC Group is presently only developing in the one geographic area, its marketing operations are worldwide.	D	Maj	Medium	Low	6, 12, 13 and 18
<b>Source of risk: operational risk (including legal and reputational)</b>					
<b>Operational risk</b>					
<b>Identification</b>	<b>Assessment</b>		<b>Evaluation</b>	<b>Treatment</b>	
Type of operational risk	Likelihood	Impact	Overall risk	Priority	Control
<u>Loss of Key Personnel:</u> The IFC Group's performance is largely dependent on	C	Maj	Medium	Medium	5, 11, 15 and 16

Source of risk: operational risk (including legal and reputational)					
Operational risk					
Identification	Assessment		Evaluation	Treatment	
Type of operational risk	Likelihood	Impact	Overall risk	Priority	Control
<p>the experience and expertise of key personnel for its day to day operations and for its strategic direction. There can be no assurance that the IFC Group can retain the services of key personnel and the loss of such personnel may have an impact on operating capabilities and future profitability. The IFC Group has taken appropriate steps to retain key people and succession plan, but this risk cannot be completely eliminated.</p>					
<p><u>Legal and Compliance Risk:</u> IFC Group actively manages legal and compliance risks to its businesses. Legal and compliance risks include the risk of breaches of applicable laws and regulatory requirements, actual or perceived breaches of obligations of fidelity or confidence to clients and counterparties, unenforceability of counterparty obligations, and the inappropriate documentation of contractual relationships. The development of new businesses and regulatory changes, domestically and internationally, are key areas of focus within this role.</p>	B	Maj	High	High	2, 3, 5, 8, 14 and 20
<p><u>General Operational Risk:</u> Operational risk arises from inadequate or failed internal processes, people and systems or from external events. The IFC Group faces operational risks which could lead to reputation damage, financial loss or regulatory consequences in the event of an operational failure or error. Responsibility for management of operational risk lies in the first instance with the business unit concerned. Controls over operational risk are designed to ensure transactions are appropriately approved and that checks and balances exist over their processing, recording and</p>	D	Maj	High	High	4, 5, 8, 14 and 17

Source of risk: operational risk (including legal and reputational)					
Operational risk					
Identification	Assessment		Evaluation	Treatment	
Type of operational risk	Likelihood	Impact	Overall risk	Priority	Control
<p>reconciliation. These include procedures and controls which ensure that all transactions are accurately recorded in internal systems and confirmed on a timely basis. The IFC Group performs operational risk self assessment and use key risk indicators and other controls as appropriate, to provide further focus on operational risk. The IFC Group's approach to managing risk through the above framework allows new risks to be identified and dealt with in a pro-active manner, as well as regularly reviewing existing risks. On top of that, the IFC Group and members of the AFRCC will continue to identify and adopt appropriate strategies for general areas of risk, including:</p> <ul style="list-style-type: none"> <li>(a) Domestic and international economic outlook and interest rates;</li> <li>(b) Changes in Government policy;</li> <li>(c) Environmental issues;</li> <li>(d) Potential changes to existing industrial relations;</li> <li>(e) Price of inputs and competitors' products; and</li> <li>(f) Customer requirements and market demand.</li> </ul>					

<b>Source of risk: market integrity risk</b>					
<b>Market integrity risk</b>					
<b>Identification</b>	<b>Assessment</b>		<b>Evaluation</b>		<b>Treatment</b>
Type of market integrity risk	Likelihood	Impact	Overall risk	Priority	Control
<u>Legislative Changes:</u> Changes to planning legislation and the interpretation and application of planning legislation by relevant authorities can affect companies in the residential development industry, including the IFC Group. Depending on the nature of any changes to planning legislation or the application and interpretation of that legislation, there could be a resulting negative impact on the IFC Group's costs and revenues.	D	Maj	Low	Low	6, 13, 14 and 18
<u>Changes in Foreign Investment Policy:</u> Changes in the current foreign investment legislative framework can affect the demand for the IFC Group's residential property developments.	E	Maj	Low	Low	6, 13, 14 and 18

## Key

### Likelihood of occurrence

A	Almost certain, is expected to occur in most circumstances
B	Likely, will probably occur in most circumstances
C	Possible, might occur in some circumstances
D	Unlikely, could occur at some time
E	Rare, may occur only in exceptional circumstances

### Impact if occurred

Low	Insignificant, no or very low financial or other loss to the IFC Group and third parties (eg consumers, creditors, shareholders)
Min.	Minor
Mod.	Moderate
Maj.	Major
Cat.	Catastrophic, huge financial loss

<b>Controls</b>	
1. The IFC Group's Compliance Program (CP)	11. Adequate staff recognition
2. Training	12. Market analysis
3. Technical signoff	13. Regular valuation of the IFC Group's property
4. Written procedures	14. Appointment of specialist advisers
5. Staff supervision	15. Succession planning
6. Investment strategy review	16. Recruitment policy
7. PI cover requirement for agents	17. Written policies
8. Authorisation procedures	18. Regular review of investments
9. Derivatives risk management statement	19. Use of derivatives
10. Building hazard controls	20. Monitoring of trading activities