



Policy Document

Risk Management

RCL Group Limited and

RCL Group Services Limited as responsible entity of the RCL Group Trust

<b>Contents</b>
-----------------

1. OVERVIEW .....	3
1.1 The Background for RCL Group .....	3
1.2 RCL Group as a Publicly Listed Entity .....	3
1.3 The Policy Document .....	4
2. THE RCL’S RISK MANAGEMENT PERSPECTIVE .....	4
2.1 What is Risk Management? .....	4
2.2 Risk Management from the RCL perspective .....	4
3. THE RCL RISK MANAGEMENT POLICY .....	4
3.1 Key Goal .....	4
3.2 Objectives .....	4
3.3 Derivative benefits .....	5
3.4 Scope .....	5
4. THE RISK MANAGEMENT STRUCTURE .....	5
4.1 Overview of RCL .....	5
4.2 Responsibility for Risk Management .....	5
4.3 Roles .....	5
4.3.1 <i>The Senior Management Team</i> .....	5
4.3.2 The Compliance Manager .....	6
4.3.3 The Chief Executive Officer and the Chief Financial Officer .....	6
4.3.4 The Board .....	6
4.3.5 The Audit, Risk and Compliance Committee .....	6
5. THE RISK MANAGEMENT PROCESS .....	7
5.1 The Risk Identification Process .....	7
5.2 The Risk Assessment Process .....	7
5.2.1 Objective .....	7
5.2.2 The Impact Rating .....	8
5.2.3 The Likelihood Rating .....	10
5.2.4 The Inherent Risk Rating .....	10
5.2.5 Risk Controls .....	11
5.2.6 The Residual Risk Rating .....	11
5.3 The Risk Monitoring and Management Process .....	12
5.3.1 Documentation and Reporting .....	12
5.3.2 Risk Treatment .....	12
6. THE RISK MANAGEMENT PROCESS - REVIEW AND COMMUNICATION .....	14
6.1 Audit .....	14
6.2 Risk Management Communication .....	14
6.2.1 Internal .....	14
6.2.2 External .....	14
7. SUMMARY .....	14

## 1. OVERVIEW

### 1.1 *The Background for RCL Group*

This policy is applicable to the RCL Group (“RCL”) entities being RCL Group Limited and RCL Group Services Limited as responsible entity for the RCL Group Trust and the subsidiary companies of these entities. The senior management team of RCL are responsible for ensuring that systems, procedures and controls are in place so that the risks of RCL are managed effectively.

The listing of RCL (Ticker symbol ‘RLG’) on the Australian Stock Exchange (“ASX”) requires RCL to address risk management in the context of a listed entity. The active management of risk by RCL will be judged against industry standards by stakeholders including unitholders of RCL, debt providers and regulators.

Ultimate responsibility for risk management rests with the Boards of the RCL entities, delegated to its Audit, Risk and Compliance Committee (“ARCC”). In undertaking these responsibilities, the ARCC will principally rely on the resources and expertise of management to implement and report upon the requisite risk management outlined in this Policy Document.

### 1.2 *RCL Group as a Publicly Listed Entity*

Principle 7 of the ASX Corporate Governance Principles and Recommendations advocates that entities listed on the ASX establish a sound system of risk oversight, management and internal control. It advocates that:

“This system should be designed to:-

- Identify, assess, monitor and manage risk;
- Inform investors of material changes to the company’s risk profile.

This structure can enhance the environment for identifying and capitalising on opportunities to create value”<sup>1</sup>.

Principle 7 provides the following recommendations on how best practice can be achieved:-

**Recommendation 7.1:** Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies

**Recommendation 7.2:** The Board should require management to design and implement the risk management and internal control system to manage the company’s material business risks and report to it on whether those risks are being managed effectively, The Board should disclose that management has reported to it as to the effectiveness of the company’s management of material risks.

**Recommendation 7.3:** The Board should disclose whether it has received assurance from the chief executive officer and the chief financial officer that the declaration provided in accordance with s 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting of risks.

#### **Recommendation 7.4**

---

<sup>1</sup> Principle 7 (Recognise and manage risk) of the ASX Corporate Governance Principles and Recommendations, 2<sup>nd</sup> Edition.

The Company will include in its corporate governance statement details outlining: -

- Any departures from Recommendations 7.1, 7.2, 7.3 or 7.4;
- Whether the Board has received a joint CEO/CFO report under Recommendation 7.2; and
- Whether the Board has received a joint CEO/CFO report under Recommendation 7.3

### **1.3 The Policy Document**

This document sets out RCL's policy in relation to risk management. Adherence to this Risk Management Policy:-

- demonstrates compliance with Recommendation 7.1; and
- provides a sound basis for demonstrating compliance with Recommendations 7.2, 7.3 and 7.4.

## **2. THE RCL'S RISK MANAGEMENT PERSPECTIVE**

### **2.1 What is Risk Management?**

Risk Management is the culture, processes and structures that are directed towards realising potential opportunities whilst managing adverse effects.

### **2.2 Risk Management from the RCL perspective**

The RCL Group, intends to continue to develop a culture that critically identifies and analyses risk as part of the investment process and ongoing business operations. The success of RCL will reflect, in part, the rigour of the risk identification and mitigation process which enables the accurate pricing and positioning of risk.

Risk management considers not only the risks inherent in investing but ALL risks which may have a material business impact including operational risk and reputational risks.

RCL is committed to compliance with Principle 7 of the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations on how to achieve best practice.

## **3. THE RCL RISK MANAGEMENT POLICY**

### **3.1 Key Goal**

RCL's Risk Management Policy aims to establish a sound system of identifying, analysing, evaluating, treating, monitoring and communicating risk.

### **3.2 Objectives**

Specifically, RCL's Risk Management Policy is intended to:-

- provide a framework for identifying, assessing, monitoring and managing risk;
- communicate the roles and accountabilities of participants in the risk management system;
- highlight the status of risks to which RCL is exposed.

### **3.3 Derivative benefits**

Implementation of this risk management policy also aims to facilitate:-

- improved strategic planning; and
- the identification of value creation opportunities while minimising the risk of loss.

### **3.4 Scope**

The Risk Management Policy is applied by RCL and all its subsidiaries.

## **4. THE RISK MANAGEMENT STRUCTURE**

### **4.1 Overview of RCL**

RCL will provide investors with exposure to the development of a diversified portfolio of residential land projects.

RCL consists of two stapled entities:

- RCL Group Trust is an Australian registered managed investment scheme whose Responsible Entity is RCL Group Services Limited.
- RCL Group Limited is an Australian company.

Responsibility for the corporate governance and actions of RCL Group Limited and RCL Group Services Limited will remain with their respective Boards.

### **4.2 Responsibility for Risk Management**

The RCL senior management team, comprising the Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”), Company Secretary (“CS”) and Compliance Manager (“CM”) have primary responsibility for the management of risk associated with management of RCL. The CEO, working with other members of the senior management team, facilitates the implementation of the risk management framework and, reports the risk status of RCL to ARCC.

The RCL Boards have ultimate responsibility for risk management and delegate’s oversight for risk management to ARCC which, under the ARCC Charter, implements and supervises the RCL risk management framework.

### **4.3 Roles**

#### **4.3.1 The Senior Management Team**

The **primary** responsibility to ensure that risks are appropriately identified, assessed, monitored and managed rests with the senior management team comprising the CEO, CFO, CS and CM. The CEO ensures that the team is advised of changing circumstances and risk management issues. The senior management team is responsible for ensuring that systems, procedures and controls are in place so that risks are managed effectively.

#### 4.3.2 The Compliance Manager

The CM:-

- Supports the senior management team in fulfilling their duties in 4.3.1. above.
- Assists in the identification and evaluation of risks.
- Is responsible for overseeing compliance plan monitoring for RCL Group Trust in accordance with Managed Investment Act quarterly reporting requirements and provides such reporting to ARCC.

#### 4.3.3 The Chief Executive Officer and the Chief Financial Officer

In accordance with the ARCC charter, on a semi-annual basis, the CEO and CFO will provide a letter of representation to the RCL Boards in respect of the adequacy and effectiveness of RCL's risk management and internal compliance and control systems.

The CEO:

- Ensures that risks are in a format facilitating effective management, decision making and reporting to the ARCC and the RCL entity Boards.
- Measures exposure to risk types and categories across RCL.
- Communicates :-
  - the nature and importance of risk management;
  - the risk management processes; and
  - regulatory requirements and industry best practices regarding risk management across RCL.
- Supports the senior management team in fulfilling their duties in 4.2.1. above.
- Assists in the identification and evaluation of risks.

#### 4.3.4 The Board

The **ultimate** responsibility for risk management rests with the RCL entity Boards.

In accordance with the RCL entity Board Charters, the Boards will:-

- ensure that effective audit, risk management and regulatory compliance programmes are in place to protect RCL's assets and unitholder value.
- approve and monitor RCL's risk framework including but not limited to systems of risk management and internal control.
- monitor compliance therewith.

ARCC has been established to support and advise the Board in fulfilling responsibilities to shareholders, employees and other stakeholders.

#### 4.3.5 The Audit, Risk and Compliance Committee

In accordance with the ARCC Charter, the Committee will:-

- Review with management the systems for identifying, managing and monitoring the key risks of the organisation.
- Obtain reports from management on the status of any key risk exposures or incidents.
- Consider the overall risk management framework and review its effectiveness in meeting sound corporate governance principles.

- Keep the Board informed of all significant business risks.
- Monitor compliance with the RCL Group Trust’s compliance plan.

## **5. THE RISK MANAGEMENT PROCESS**

The risk management process is ongoing and requires the continuous identification, assessment, monitoring and management of risks. The risk management process implemented by RCL is consistent with the Australian/New Zealand Standard AS/NZ ISO 31000, Risk Management.

The RCL risk management process is:-

1. Identify all risks and their consequences on the business. Refer 5.1.
2. Assess the impact rating of the risks on the business. Refer 5.2.2.
3. Assess the likelihood of the risks occurring. Refer 5.2.3.
4. Obtain the inherent risk rating as indicated by the Impact and Likelihood Matrix. Refer 5.2.4.
5. Consider the controls that address the inherent risk. Refer 5.2.5.
6. Obtain the residual risk rating by assessing the residual impacts and the likelihood of occurrence after implementation of all controls. Refer 5.2.6.
7. Prepare a Risk Register documenting all Medium, High and Extreme residual risks which is updated quarterly. Refer 5.3.1.
8. Prepare a Risk Profile for risks with a High or Extreme residual risk rating. Refer 5.3.1.
9. The CEO or senior manager who is principally responsible for actively managing a High or Extreme residual risk, documents an Action Plan which is reviewed by the senior management team, CM and ARCC. Refer 5.3.1. Risk treatment options are detailed in 5.3.2.

### **5.1 The Risk Identification Process**

The objective of risk identification is to develop a comprehensive list of sources of risk and events that might have an impact on the achievement of RCL’s business and strategic objectives.

When identifying sources of risk or events that may impact the business and its strategic objectives, consider the following:-

- What can happen? - consider past, present and future events or incidents.
- How and when risk events can occur - consider causes and scenarios.
- What are the consequences?

The senior management team will identify risks and their consequences on RCL.

### **5.2 The Risk Assessment Process**

#### **5.2.1 Objective**

The objective of risk assessment is to establish an understanding of the level of risk and its nature. A risk rating (ie. low, medium, high or extreme) is obtained by combining the estimate of the impact of a risk event and the likelihood of a risk event.

**Risk Impact and Likelihood Matrix**

		Likelihood				
		Unlikely	Possible	Likely	Probable	Almost Certain
Impact	Catastrophic	High	High	Extreme	Extreme	Extreme
	Major	Medium	High	High	Extreme	Extreme
	Moderate	Low	Medium	High	High	Extreme
	Tolerable	Low	Low	Medium	High	High
	Insignificant	Low	Low	Low	Medium	Medium

The interaction of the estimates of impact and likelihood will act as a guide in determining risk ratings and will indicate a management response as follows:

- Extreme Risk = Immediate action required
- High Risk = Senior management attention needed
- Medium Risk = Management responsibilities must be specific
- Low Risk = Manage with routine procedures

The impact of a risk event and the likelihood of a risk event are explained at 5.2.2 and 5.2.3 respectively.

**5.2.2 The Impact Rating**

When determining the impact rating of a risk event, consider what constitutes an acceptable level of risk. Some funds may be more risk averse than others. Impact should be considered by its effect on a range of factors and will fall in the range of insignificant impact to catastrophic impact.

***Determination of Impact Rating***

The categories of risk and impact ratings outlined below are applicable for RCL as a whole. The ARCC will determine the applicable threshold for reporting purposes based on potential financial impact (row 1 of the table below).

Indicative Determination of Impact Rating on RCL					
Impact Category	Insignificant	Tolerable	Moderate	Major	Catastrophic
Effect on % current year Forecast Net Revenue (indicative)	<4%	4% - 7%	7% - 15%	15% - 36%	>37%
Regulatory Environment (change in laws or accounting and tax policies and regulations)	A change, the impact of which can be absorbed through normal management.	A change, the consequences of which can be absorbed but requires active management to minimise the impact.	A significant change which can impact the business.	A change with the potential to significantly impact the business.	A critical change with the potential to lead to collapse of the business.
Reputation	Letters to local/state press.	Series of articles in local/state press.	Extended negative local/state media coverage.	Extensive negative nation wide media coverage.	Extensive extremely negative nation wide or international media coverage.
Compliance	Minor breaches by individual staff members.	No fine, but some disruption to services.	Fine with some disruption to services.	Fine and significant disruption to services.	Fine and extreme disruption to services with the potential to lead to the collapse of the business
Management Effort	An event, the impact of which can be absorbed through normal activity.	An event, the consequences of which can be absorbed but management effort is required to minimise the impact.	An event that can impact the business.	An event with the potential to significantly impact the business.	A critical event with potential to lead to collapse of the business.
Environment	Environmental exposure immediately contained.	Environmental exposure contained with active management over a short period of time.	Environmental exposure contained with active management and outside assistance over a short	Significant environmental exposure contained with active management and outside assistance	Critical environmental exposure with significant detrimental effects.

			period of time.	over an extended period of time.	
Personal liability (Directors & Officers / Employee)	First aid treatment	Medical treatment required	Extensive injuries	Loss of livelihood	Death and prosecution

**5.2.3 The Likelihood Rating**

When determining the likelihood of a risk event occurring, objective data is to be considered where possible. In the absence of objective data a likelihood rating requires judgment based on professional experience. The likelihood of an event occurring should be considered in the 0-2 year timeframe as an event horizon beyond two years is generally too subjective to make informed forecasts. However, if a risk event is identified which has a long term impact outside the two year timeframe and its likelihood can be objectively assessed, that risk should be included in the risk analysis. For the majority of operational risks a one year time horizon is customary.

***Determination of Likelihood Rating***

Likelihood	DESCRIPTION	Likelihood expressed as a percentage	Typical value
Almost Certain	Expected to occur in almost all circumstances	90-100%	95%
Probable	Expected to occur in most circumstances	70-90%	80%
Likely	Expected to occur at some time	40-70%	50%
Possible	Capable of occurring at some time	10-40%	20%
Unlikely	Improbable; may only occur in exceptional circumstances	0-10%	5%

**5.2.4 The Inherent Risk Rating**

Inherent risks are risks in their “pure” form, that is, risks absent the influence of controls. Analysing risks in their pure form assists in understanding the sources of those risks and illustrates the importance of implementing effective controls. The interaction of the risk impact and likelihood ratings will indicate the inherent level of risk assumed and the level of action required per 5.2.1. The inherent risk ratings may appear high in the absence of the influence of controls.

### **5.2.5 Risk Controls**

To the extent that controls exist to mitigate inherent risks, these controls (and the effectiveness of the controls) are taken into account when determining the residual risk rating.

### **5.2.6 The Residual Risk Rating**

The residual risk rating is the re-assessment of risk on the Risk Impact and Likelihood Matrix in 5.2.1, in the context of existing controls put in place.

### **5.3 The Risk Monitoring and Management Process**

#### **5.3.1 Documentation and Reporting**

A Risk Register is maintained documenting the status of all Medium, High and Extreme residual risks to which it is exposed.

A Risk Profile is prepared for High and Extreme residual risks.

Action Plans for the control of High and Extreme residual risks document who has responsibility for implementation of the plan, the timetable and review process. Action Plans are referred to the CEO and ARCC in a timely manner.

The Risk Register, Risk Profiles and Action Plans are reviewed annually

#### **5.3.2 Risk Treatment**

The CEO, CFO, CS and the CM consider whether controls effectively and sufficiently manage residual risks to a standard consistent with policy and as expected by stakeholders. Residual risk treatment options are summarised in the table below.

Treatment Options	Actions
Terminate the Risk (“T”)	<p>RCL can choose to terminate a risk by declining to participate in an opportunity that would give rise to the risk, eliminating the business area/investment or significantly altering it. This may also be thought of as risk avoidance. RCL can choose this route for risks that could have a high or catastrophic impact on the business and where the costs of pursuing other choices significantly outweigh the potential benefits. Risks transformed from one type to another may then be subject to another treatment option.</p>
Reduce the Risk (“R”)	<p>RCL can choose to reduce the risks by taking specific action aimed at:</p> <ul style="list-style-type: none"> <li>(a) Reducing the likelihood that a risk will occur in the first place; and</li> <li>(b) Reducing the impact/consequence that a risk might have on the business should it actually occur.</li> </ul> <p>This may be achieved via increased management controls, establishing operational limits, quality assurance procedures, reviews and inspections. Risk mitigation methods may include disaster recovery planning, contingent operating capabilities, contract terms and conditions and crisis management. Rebalancing asset portfolios or reallocating capital among business units are also included.</p>
Accept the Risk (“A”)	<p>To generate the targeted return on equity, certain risks may be accepted. This will be the case where the marginal cost of treating the risk is greater than the marginal benefit in treating it. These will be actively monitored to ensure the type and rating of risks are:</p> <ul style="list-style-type: none"> <li>(a) Consistent with the original business case or investment thesis; and</li> <li>(b) Producing returns commensurate with the risks being taken</li> </ul> <p>Risks treatments including self insurance against loss and reliance on natural offsets or hedges within portfolios are included under risk acceptance.</p>
Pass-On the Risk (“P”)	<p>Where possible, RCL can choose to pass on all or part of a certain risk to another party. Transfer of risk may include use of insurance or outsourcing. In the latter case, a new risk type will also be created with respect to reliance on a third party. Sharing of risk by way of Joint Venture, partnerships, contractual agreements or syndication as well as hedging through capital markets instruments are ways of passing on risk.</p>

## **6. THE RISK MANAGEMENT PROCESS - REVIEW AND COMMUNICATION**

### **6.1 Audit**

Auditors will assess the management of risk and key internal control systems and communicate with the ARCC as part of the audit process. The CEO is to facilitate the audit of RCL's risk and key internal control systems.

The CEO is to facilitate the preparation of specific risk reports as requested by external parties.

### **6.2 Risk Management Communication**

The Risk Management Policy is to be communicated internally to ensure all employees have a detailed understanding of the policy and their individual responsibilities. The Risk Management Policy is to be communicated externally in summary form.

#### **6.2.1 Internal**

It is the responsibility of the senior management team within RCL to communicate the Risk Management Policy to all employees.

The Risk Management Policy is communicated to new employees as part of the induction process and a copy of the policy is posted on the intranet. RCL staff attend a risk management and compliance policy presentation annually.

#### **6.2.2 External**

As advocated by Recommendation 7.4 of the ASX Corporate Governance Principles and Recommendations, 2<sup>nd</sup> Ed, the CS will ensure that a Summary of the RCL Risk Management Policy is publicly available via the Corporate Governance section of the RCL website.

## **7. SUMMARY**

- The senior management team, comprising the CEO, CFO, CS, and CM is primarily responsible for the effective implementation of the RCL Risk Management Policy.
- The CEO oversees the implementation of the policy and promotes awareness of the importance of effective risk management in RCL.
- The CEO reports the status of risks and controls and the effectiveness of RCL's risk management system to the ARCC.
- The ARCC keeps the RCL Boards informed of all significant business and investment risks and the effectiveness of the risk management system.
- The RCL Boards has the ultimate responsibility for risk management.