



**AUSTRALIAN INVESTMENT COMPANY SERVICES  
LIMITED**

**Risk Management Policy & Framework for  
AMCIL Limited**

**April 2009**

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## 1. Introduction

AICS is wholly owned by the investment companies AFIC and Djerrivarrh with 75 per cent and 25 per cent stakes respectively.

Australian Investment Company Services Limited ('AICS') provides administrative and managerial support for the following listed investment companies (collectively "the investment companies"):

- ▶ Australian Foundation Investment Company Limited ('AFIC');
- ▶ Djerrivarrh Investments Limited ('Djerrivarrh');
- ▶ Mirrabooka Investments Limited ('Mirrabooka'); and
- ▶ AMCIL Limited ('AMCIL')

AICS and the Boards of the Investment Companies recognise that risk management is an essential element of good corporate governance and has established an effective risk framework that will enable the organisation to balance opportunities for gain while minimising its losses.

The Boards have requested that all existing and new policies be accommodated in a written, published framework as a matter of good corporate governance, and in accordance with Principle 7 ("Recognising and Managing Risk") of the ASX's Principles of Good Corporate Governance and Best Practice Recommendations.

The Boards, and Audit Committees, of the Investment Companies have agreed that they will adopt the following Framework as relevant to each of the Companies.

## 2. Objectives of the Risk Management Policy and Framework

This document sets out the Risk Management policy and framework of Australian Investment Company Services ('AICS'), Australian Foundation Investment Company Ltd, Djerriwarrh Investments Ltd, Mirrabooka Investments Ltd and AMCIL Ltd and the measures established by them to manage and monitor the factors that could potentially prevent them from achieving business objectives.

The Risk Management Policy and Framework will form the basis for embedding enterprise risk management within the culture of the organisation. The objectives of this policy are to:

- ▶ Increase the likelihood that AICS and the investment companies will be successful in their business operations by preventing potentially damaging events occurring and maximising the results of positive events (e.g. financial position, investment strategies, etc), through the implementation of risk management strategies.
- ▶ Provide decision makers with the means to identify risks and to determine whether the controls in place are adequate to mitigate those risks.
- ▶ Provide a mechanism to assess the level of risk that can be accepted.
- ▶ Ensure that the application of risk management practices is understood and valued within AICS and the investment companies; and a strong risk culture is well-entrenched.
- ▶ Reduce the consequence and/or likelihood of potentially damaging events (e.g. through fraud and corruption).
- ▶ Transfer the impact of potentially damaging events to third parties (through, for example, insurance, and contractual arrangements) for outsourced arrangements, where appropriate.

This document provides an overview of the framework in place within AICS and the investment companies for the management of risks associated with activities undertaken to meet their objectives. The document also outlines the approach taken to identify, assess, treat and monitor the risks facing the businesses.

### 3. Risk Management Framework

The Boards of Directors of each of AICS and the investment companies recognise that risk management is an integral part of good management practice. Risk management is integrated into the philosophy, practices and business plan and a culture of compliance is actively promoted. The Boards of Directors have ultimate responsibility for ensuring the adequacy of risk management systems and ensuring that risks are identified and addressed in a timely and adequate manner.

AICS and its' senior management, as part of their day-to-day duties, have regard for the operational, financial reporting and compliance risks inherent in the businesses, and have established and maintained clear and open communication channels between all staff in order to facilitate the compliance and risk management culture.

The Investment Committees of the investment companies have regard for the investment risks inherent in the businesses and the portfolios of the companies.

The Boards are assisted in their risk management activities by their Audit Committees which meets at least 3 times per year, and by the Investment Committees with regards to investment risk..

Co-ordination of the risk management activities is the responsibility of the "Risk Officer" who is currently the Chief Financial Officer.

The hierarchy of elements which comprise the risk management framework are shown in the diagram below.



#### **4. Policy Statement**

##### *Purpose*

The aim of this policy is to provide clear guidelines on the management of risks to enable the achievement of strategic and operational objectives.

##### *Scope*

This policy covers all material risks that the entity faces. It is to be adhered by all employees and Board members and where relevant, contractors and consultants.

##### *Approach*

The risk management methodology adopted by AICS and the investment companies is based on the risk standard AUS/NZS 4360:2004.

Key aspects of the methodology are:-

1. Establishing the context.
2. Identify risks.
3. Analysis of risks.
4. Rating the risks.
5. Mitigating Strategies.
6. Monitoring, Reporting and Review.

##### *Risk Culture*

All staff are to be committed to ensuring that their behaviours relating to their individual performance involve informed decisions based on a reasonable analysis of foreseeable risks, opportunities and their associated impacts on the implementation of AICS and the investment companies strategies and the achievement of goals.

##### *Responsibilities*

The responsibility for implementing this policy rests with all employees, management and Board/Committee members; and where relevant, contractors and consultants to AICS and/or the investment companies.

##### *Review of policy*

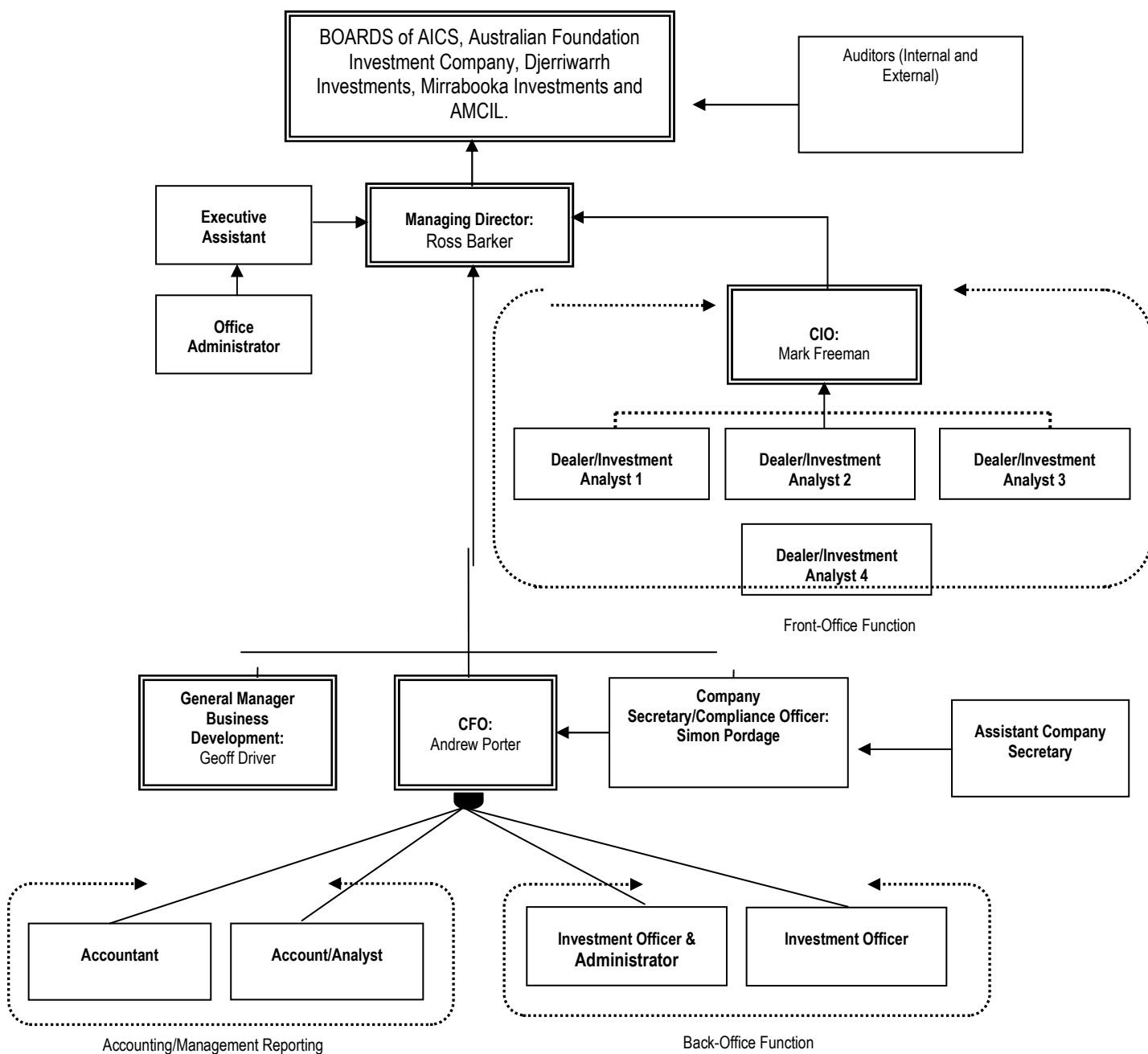
This policy will be reviewed on a yearly basis. Responsibility for ensuring that this review is undertaken rests with the CFO.

**5. Roles and Responsibilities:**

The Board of each company relies upon the CEO and Executive Management Team (“EMT”) to drive operational risk management practices within AICS and, by definition, the investment companies. As noted, investment risk lies largely within the remit of the various Investment Committees. The CFO leads the ongoing implementation of, and compliance with, the Risk Management Framework. Over and above these accountabilities, everyone in the organisation has responsibility for managing risk.

A key objective of the Risk Management Framework is to embed a risk culture within the organisations.

The following diagram outlines the organisational structure of AICS:



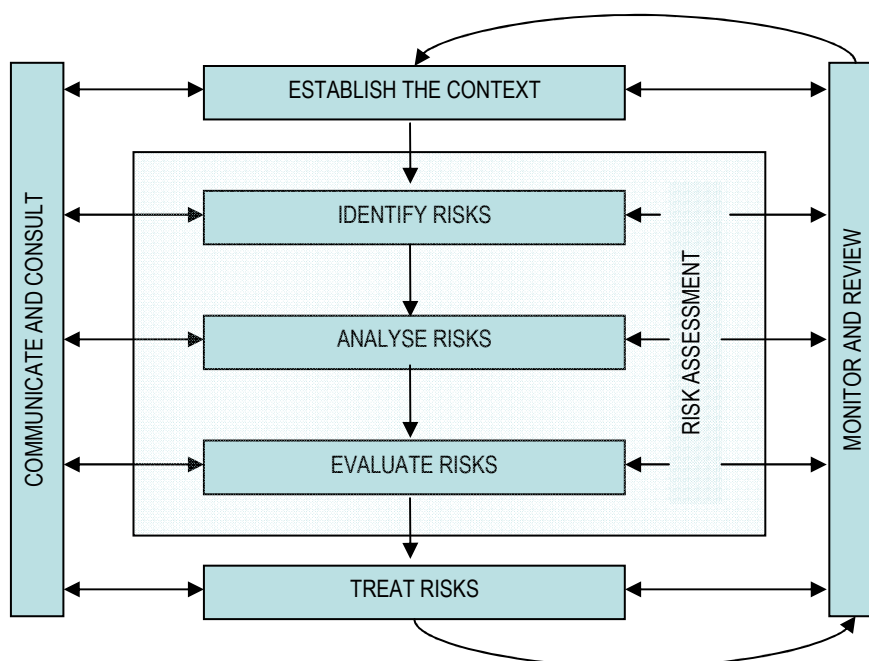
The following table outlines the key responsibilities with regards to risk management at AICS and at the investment companies:

<p><b>Board of Directors</b></p>	<p>The Board of Directors holds the following responsibilities:</p> <ul style="list-style-type: none"> <li>▶ To review and approve the Risk Management Policy and Framework.</li> <li>▶ To ensure compliance with Principle 7 of the ASX Corporate Governance Principles and Recommendations, namely : <ul style="list-style-type: none"> <li>▪ To establish policies for the oversight and management of material business risks, and disclose a summary of these policies</li> <li>▪ To 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.</li> <li>▪ To require the CEO and CFO to assure the Board that the financial statements are 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 risks.</li> </ul> </li> </ul>
<p><b>Audit Committee</b></p>	<p>The Audit Committee has the following responsibilities:</p> <ul style="list-style-type: none"> <li>▶ To review the risk management framework incorporating the risk management policy statement.</li> <li>▶ To review and recommend to the Board the structure for managing risk.</li> <li>▶ To obtain assurance that appropriate risk management methodologies and practices have been implemented across the organisation.</li> <li>▶ To receive risk reporting from the EMT to provide assurance that all key risks have been appropriately identified and managed.</li> <li>▶ To receive internal audit reporting about the adequacy of risk and controls through the Internal Audit function (via AICS for the investment companies).</li> <li>▶ To report to the Board on the organisation's adherence to the Risk Management Framework.</li> </ul> <p>The EMT and auditors (both internal and external) provide regular reporting to the Audit Committee. Normally for the internal auditors this is via AICS although the Audit Committees of the investment companies have access to them as needed.</p>

<b>Investment Committee</b>	<p>The Investment Committee has the following responsibilities :</p> <ul style="list-style-type: none"> <li>▶ Make investment decisions including adding new investments, increasing or reducing existing investments and disposals</li> <li>▶ Voting instructions and lodgement of proxies</li> <li>▶ Review of portfolios with regards to weightings and investment and concentration risk</li> <li>▶ Monitoring option coverage and the risks of having stock being called away or put stock.</li> </ul>
<b>Chief Financial Officer</b>	<p>The CFO is responsible for assisting with establishing, overseeing, reviewing and maintaining AICS' Risk Management Framework. This is achieved through the development of appropriate infrastructure to identify measure, manage and report risks.</p> <p>The CFO performs the following risk management functions:</p> <ul style="list-style-type: none"> <li>▶ Ensuring risk management processes are established and operating effectively.</li> <li>▶ Maintaining the risk register.</li> <li>▶ Maintaining a central risk register and loss database for recording risk events identified and mitigating strategies throughout AICS and the investment companies.</li> <li>▶ Recommending education and training of risk practices and processes.</li> </ul>
<b>EMT</b>	<p>Responsibility for risk management rests with each member of the EMT who is to lead risk management processes within AICS. Key responsibilities include:</p> <ul style="list-style-type: none"> <li>▶ Considering key risks as part of the strategic and business planning processes.</li> <li>▶ Reporting risk events in accordance with the reporting process included in the framework.</li> <li>▶ Reporting to the investment companies and to the Board of AICS on the risk profiles and risk mitigation plans of AICS.</li> <li>▶ Implementing measures to appropriately resolve risk issues as they are identified, within their respective lines.</li> </ul>
<b>Employees</b>	<p>Employees are responsible for:-</p> <ul style="list-style-type: none"> <li>▶ Reporting any risk events, i.e. injury, hazard, financial loss, service interruption, etc as soon as it is detected or reported to the relevant manager.</li> <li>▶ Performing duties without risk to their own health and safety, other employees, AICS customers, investment company shareholders or the community in general.</li> <li>▶ Complying with risk mitigation controls within daily tasks in AICS operations.</li> <li>▶ Providing risk management related information, as requested by their manager.</li> </ul>

## 6. Risk Management Methodology

The risk management framework has been developed to take into account the principles outlined in AS/NZS 4360:2004 (Risk Management Guidelines). This approach involves establishing the context in which it operates, identifying the risks, analysing those risks, evaluating the risks, treating the risks where appropriate and monitoring, reviewing and reporting risks and the overall performance of the framework. This process is underpinned through regular communication and consultation with key business stakeholders. The following diagram represents an overview of this approach to risk management:



### Establishing the Context

Establish the internal, external and risk management context in which the risk management process will take place.

Risk management involves an appropriate balance between realising opportunities while attempting to minimise risks or losses. The Boards and the Audit and Investment Committees have considered their material risks and are aware that certain risk types may not be capable of being managed to relatively low levels. However, these risks are understood, controlled and monitored by the Executive Management, Audit and Investment Committees and Board.

### Identify Risks

#### Definition of risk

*This framework defines a risk as the chance of something happening that will have an impact upon the achievement of AICS' and the investment companies business objectives. This broad definition of risk encapsulates threats or hazards (the risk of loss or the occurrence of negative events), uncertainty (the risk of variance between anticipated and outcomes and the actual results) and lost opportunity (the risk of positive events not occurring).*

AICS and the investment companies can all be viewed as largely steady state businesses. It is critical however that this does not translate into allowing the control environment to deteriorate over time or not identifying new risks on a timely basis. This is

particularly relevant in current times given the uncertainty and volatility surrounding the financial markets. Accordingly, the following procedures are in place to identify risks:

- ▶ Maintenance of a risk register. The AICS risk register has been developed by management and subject to consultation and review by external consultants. It is reviewed and updated on a regular basis by the Risk Officer and formally by the Board on an annual basis as part of the business planning process.
- ▶ The audit committee's of each of the investment companies have adopted the AICS risk register and will review on a periodic basis to validate appropriateness.
- ▶ Developing a high awareness of the importance of risk management within the companies, including identifying training needs where necessary.
- ▶ Continuing review of investment risk by Investment Committees.
- ▶ Consultation with internal and external stakeholders and consultants
- ▶ Internal Audit reports
- ▶ Monitoring of current market conditions and events to identify key risks emerging from the external environment.

**Risks are identified taking into consideration:**

- ▶ Legal and regulatory trends
- ▶ Industry risk history and emerging trends
- ▶ Organisational risk history.
- ▶ Organisational structure.

**Analyse Risks**

All new and existing risks identified are recorded in the risk register. As part of the development of the risk register all of the risks are analysed and evaluated. Each risk is assessed in terms of:

- ▶ Existing controls and the success of those controls in mitigating risk.
- ▶ The likelihood of an event occurring.
- ▶ The impact or consequences of the identified risk if it occurred.
- ▶ The residual risk rating.

**Likelihood**

Some events happen once in a lifetime. Others can happen almost every day. Analysing risks requires an assessment of their frequency of occurrence. This following table provides broad descriptions used to support likelihood ratings. The occurrence should be judged without reference to known management practices since these are assessed in Step 3 of the risk management process overview.

Likelihood Rating	Descriptor	Qualitative description
5	Almost Certain	It is almost inevitable that such an event may occur within the foreseeable future based on the business profile, nature of the event, prior experience or expected future events.
4	Likely	Although not certain, there is a better than reasonable chance of the event occurring based on the nature of the event, prior experience or expected future events.
3	Possible	There is a reasonable chance of an event occurring based on the nature of the event, prior experience or expected future events.
2	Unlikely	The likelihood of an event occurring is low, but there is a chance.
1	Rare	The likelihood of an event occurring is extremely rare, but judgement dictates it could occur.

### Consequence

The risks facing AICS and the investment companies have both financial and reputational consequences

Each consequence can be rated, in terms of its severity, from insignificant to catastrophic. Consequence ratings are explained in detail below:

Rating	Area of Impact	
	<i>Financial, Reputation &amp; Image</i>	
<b>Catastrophic</b>	<b>5</b>	Substantial long term damage to brand and degradation of member perception of value i.e. trust, affecting whole business. Very significant expense incurred. Major right-down of assets. Significant state wide negative publicity, i.e. from TV and state newspaper.
<b>Major</b>	<b>4</b>	Long term damage to brand and degradation of member perception of value i.e. trust, affecting whole business. Significant expense incurred. Moderate write down of assets. Minor state wide negative publicity, i.e. from state newspaper/radio.
<b>Moderate</b>	<b>3</b>	Moderate term damage to brand and degradation of member perception of value. Moderate Expenses incurred. Minor write-down of assets. Local negative publicity, i.e. from newspaper/radio.

Rating		Area of Impact
		<i>Financial, Reputation &amp; Image</i>
Minor	2	Short term damage to brand and degradation of member perception of value. Minor expenses incurred.
Insignificant	1	Little or no brand damage or degradation of member perception of value. No expenses incurred.

### Evaluate Inherent Risks

Inherent risk is measured by evaluating the organisation's exposure to the consequence and likelihood of a risk event in the circumstance where there are no controls or mitigating practices in place. The combined ratings for likelihood and consequence for each risk are then combined in the matrix below to determine the overall inherent risk ranking.

Risk evaluation uses the understanding of risk obtained by performing the risk analysis in order to make decisions about future actions. The output of the risk analysis is a residual risk profile matrix which indicates the residual risk ratings for each of the key risks identified.

The Matrix below depicts the residual risk ratings applied to each of the risks identified:

Likelihood	Consequence				
	Insignificant	Minor	Medium	Major	Catastrophic
Almost Certain	Moderate	High	High	Very High	Very High
Likely	Moderate	Moderate	High	High	Very High
Possible	Low	Moderate	High	High	High
Unlikely	Low	Low	Moderate	Moderate	High
Rare	Low	Low	Moderate	Moderate	High

The required action to address the residual risks is then applied according to the following table:

Colour	Response
	Very high risk; immediate action required
	High risk; senior management attention needed
	Moderate risk; management responsibility must be specified
	Low risk; manage by routine procedures

### Evaluate Residual Risks

The purpose of risk evaluation is to make decisions, based on the outcomes of risk analysis, about which risks need treatment and treatment priorities. Risk evaluation involves comparing the level of risk found during the analysis process with risk criteria established when the context was considered.

Following the assessment of inherent risks, AICS and the investment companies identify and evaluate the effectiveness of controls and mitigating actions to determine the residual risk level.

### Identification and assessment of controls

Controls include all the policies, procedures, practices and processes in place to provide reasonable assurance of the management of risks.

Where controls exist but are not being followed and monitored, then adequate control does not exist. In order for mitigating practices / controls to be effective they also must be communicated, actioned and monitored. When assessing the effectiveness of controls, the table below is utilised.

Rating		Description
1	Adequate	Risk management systems, process controls and procedures in place and can be relied upon to mitigate or detect risk materialising.
2	Needs Improvement	Majority of risk management systems, process controls and procedures in place. Basic risks will be controlled most of the time. However, scope exists to improve controls.
3	Deficient	Controls do not exist or else are not operating effectively. Risk will not be controlled.

### Residual Risk Table

Residual risk is the level of risk that remains after consideration of all existing mitigants / controls.

Inherent risk rating	Control effectiveness assessment		
	Adequate	Needs Improvement	Deficient
Very high	Important	Significant	Critical
High	Important	Important	Significant
Moderate	Insignificant	Important	Important
Low	Insignificant	Insignificant	Insignificant

The required action to address the residual risks is then applied according to the following table:

Residual Risk	Response
	Critical; immediate action required
	Significant; senior management attention needed
	Important; management responsibility must be specified
	Insignificant; manage by routine procedures

### Treat Risks

Risk treatment involves identifying the range of options for treating risks, assessing these options and the preparation and implementation of treatment plans. Risk treatment plans should be developed to bring about a residual risk level that is in line with an organisation's risk tolerance. Where an organisation's residual risk is above an organisational risk tolerance a cost benefit analysis should be undertaken on the risk treatment options and an action plan should be developed that is owned by individuals and has completion time frames.

AICS and the Boards of the investment companies have determined that a material risk would be unacceptable and would require immediate action if any residual risk rating was Significant or Critical or if the controls were deficient.

Risk tolerances can be established on an organisation wide basis or specific to an individual risk to an organisation's risk profile. An organisation's tolerance to individual risk can be difficult to formalise as the ongoing change in an organisation's context requires organisations to be dynamic and respond to risk events as deemed necessary by its officers.

Risk tolerance levels can be influenced by adjusting some key aspects of the Risk Management Framework. In particular, the definition of what is 'Catastrophic' within the consequence table and adjusting what level of Control Effectiveness is considered 'Adequate'.

### Risk Treatment Options

When deciding upon an appropriate risk treatment plan, an organisation may consider a range of options to treat the risk. The option chosen will vary whether the risk will bring about positive or negative consequences. Traditionally, risk management principles have been utilised to manage risks that may have a negative impact upon objectives. Below is a table that further describes the various risk treatment options.

Option	Description
Avoid	Avoid and abstain from an activity when the accumulative opportunity for gain is outweighed by the accumulative opportunity for loss.
Mitigation Controls	Implementation of new controls or strengthening existing controls
Transference	Sharing the potential gain or loss with a third party to reduce the exposure to the risk or set of risks associated with particular activities (for example by insurance or derivatives)
Accept	After establishing appropriate controls, the company needs to accept the residual risk within the decision/activity and monitor those controls in place.

### Assessing Risk Treatment Options

Selecting the most appropriate option involves balancing the costs of implementing each treatment against the benefits derived from it. In general, the cost of managing risks needs to be commensurate with the benefits obtained. When making such cost versus benefit judgements, the context should be taken into account. It is important to consider all direct and indirect costs and benefits whether tangible or intangible, and measured in financial or other terms.

### Monitor and Review

The Risk Officer is responsible for the operation of a monitoring program throughout the year, designed to ensure that the risk profile remains relevant and current. This review will also seek to assess whether the controls in place are adequate with regards to the nature of the risks and are operating in an effective manner.

To ensure that the Risk Management Framework remains up to date, the Board, through the Audit Committee, and EMT review the framework on an annual basis and on a regular basis through the Compliance Monitoring Assessments. The risks are also reviewed when circumstances relevant to the business change, to ensure that the measures remain relevant and effective, reflecting business developments and any major changes in legislation, the business risk profile, the environment and technology.

The ongoing monitoring of any further actions and the existence and effectiveness of internal controls is performed by Internal Audit, Audit Committee and by management assessments of the control environment.

The following summarises the key risk monitoring and review activities to be undertaken by AICS, the investment companies or external regulators:

## Risk Management Policy &amp; Framework

Activity	Responsibility	Timing
Review the Risk Management framework (including the risk management policy statement).	Audit Committee	Annually
Review of risk profile.	CFO / Internal Audit	Quarterly
Reviews of compliance by external audits	CFO	Annually

**Communicate and Consult**

Effective communication is important to ensure that those responsible for implementing risk management, and those with a vested interest understand the basis upon which decisions are made and provide input to the identification and evaluation of risks. Management at AICS have communicated and consulted with both internal and external stakeholders at each stage of the risk management process.