



Risk Management Policy

Introduction

Risk is any threat or opportunity that has the potential to impact or create uncertainty in the achievement of objectives.

The presence of risk is a commercial reality for every organisation, including Aveo. As such, managing risk in a sensible and calculated manner is an integral part of doing business and in delivering securityholder value.

This Policy sets out Aveo's approach to risk management; including the risk appetite, risk management process, and the roles and responsibilities of employees and directors of Aveo Group Limited (**Aveo**).

Aveo's approach to risk management

Aveo recognises the importance of managing risk and controlling business activities in a manner which enables us to maximise profitable opportunities, avoid or reduce risks which may cause injury or loss, ensures compliance with applicable laws and regulations, and enhances resilience to external events.

In achieving this, Aveo adopts a process of continuously identifying, evaluating, treating and monitoring risk exposures. These exposures are then controlled through the introduction of policies, procedures or altered work practices; with the most effective mitigation strategy being through the creation of a risk aware culture.

At its core, risk management is simply good management practice; and Aveo's approach to risk management ensures we are best placed to meet business objectives and fulfil our corporate governance obligations.

Risk appetite

Aveo's risk appetite is a measure of the degree to which we are prepared to accept risk.

It is the view of management and the Aveo Board of Directors (**Board**) that whilst pursuing growth and innovation in the delivery of retirement services, Aveo will not compromise its reputation for providing first class care to residents or our reputation for safeguarding and promoting the safety of our residents and employees. Aveo takes very seriously our obligation and commitment to workplace health and safety. We therefore accept a low level of risk in this area.

Notwithstanding, we recognise that in implementing our strategy and pursuing business development and investment opportunities we will need to accept a certain degree of risk. Taking calculated risks is vital to the creation of long term securityholder value. As such, we aim to balance risk and reward, accepting and managing commercial risks where Aveo has the willingness and capability to do so. Fundamental to this acceptance of risk is a comprehensive decision making process, an understanding of risk tolerances and a risk aware culture.

Aveo's detailed Risk Appetite Statement is available to staff on the Company Intranet.

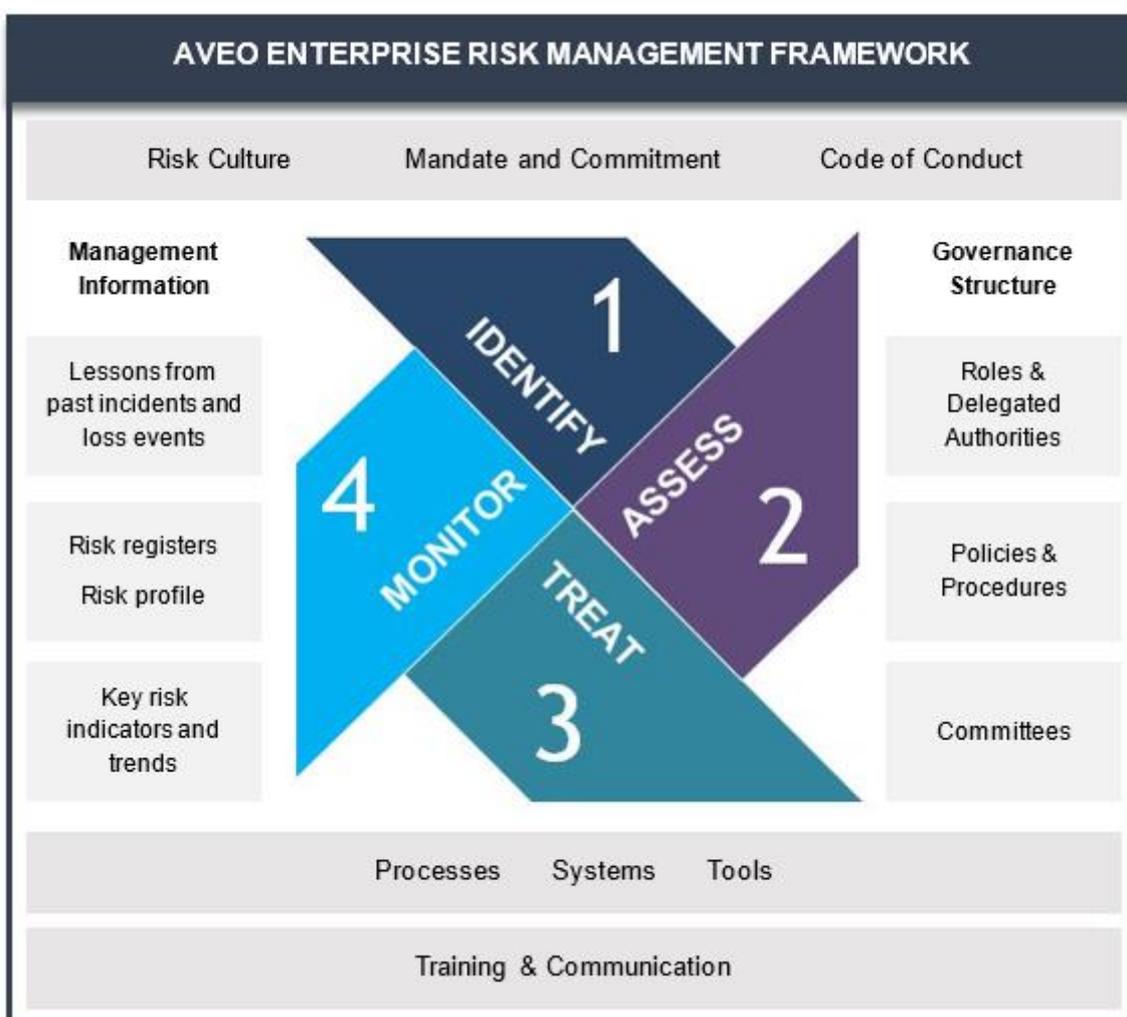
Enterprise risk management framework

Aveo's policy and approach to risk management reflects prevailing standards, regulations and better-practice guidelines, including:

- Australian/New Zealand Standard ISO 31000: *Risk Management Principles and Guidelines*.

- ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (specifically Principle 7: Recognise and Manage Risk).
- Committee of Sponsoring Organisations of the Treadway Commission paper on *Enterprise Risk Management – Integrated Framework*.
- Australian Securities and Investment Commission Regulatory Guide 259 – *Risk management systems of responsible entities*.

Aveo's Enterprise Risk Management (**ERM**) Framework, illustrated below, sets out the key principles and structures that are employed to effectively manage risk across the organisation. It reflects the risk management philosophy of Aveo and defines the key components, responsibilities and relationships therein. The Aveo ERM Framework is published on the Company Intranet.



Risk classification and reporting

Aveo operates an integrated business model, drawing on expertise in development, construction, retirement village ownership and management, investment, property and asset management, and aged care services. Each of these areas brings about risk exposures which are broadly classified as strategic, financial, operational, market or compliance related risks.

Material risks that are identified by management are assessed and recorded in divisional risk registers. These registers inform Aveo's risk profile and reporting that is provided to those charged with governance. Significant risk matters are escalated to the Board as and when appropriate.

Risk assessment process

Aveo's risk management process encompasses the systematic identification, assessment, treatment and monitoring of potential exposures and opportunities. Specifically:

1. Identification The combined top-down/bottom-up approach to identifying risks.
2. Assessment Evaluation of the likelihood of occurrence and the severity of the risk (or upside in respect of an opportunity). The effect of any compensating controls in mitigating the uncertainty (or capturing value) is also assessed.
3. Treatment Development and implementation of action plans and activities to reduce the threat/uncertainty to an acceptable level.
4. Monitoring Continuous monitoring and reporting on Aveo's risk profile, risk management activities and the inclusion of risk information in strategic decision making.

Roles and responsibilities

The Board is ultimately responsible for the oversight of risk across the Aveo Group. This responsibility has, in part, been delegated to the Aveo Audit & Risk Committee (**Committee**).

The Committee advises the Board on risk management and is responsible for ensuring the establishment and implementation of appropriate policies and procedures, in addition to assessing the ongoing effectiveness of Aveo's approach to risk management.

The Chief Executive Officer and National Executive are responsible for the implementation and operation of Aveo's Risk Management Policy, Framework and practices.

The National Executive is supported by the Group Head of Audit & Risk, who coordinates ERM activities across the Group and acts as custodian of Aveo's ERM Framework; providing training and support to management, policy advice and entity-level risk reporting to the Board.

The identification, assessment, management and reporting of risk are the primary responsibilities of management.

Supporting management are the external and internal audit functions which review the adequacy, effectiveness and efficiency of Aveo's system of risk management and control, recommending improvements where appropriate.

Aveo Funds Management Limited

As the Board of Aveo Funds Management Limited (**Responsible Entity**) is comprised of a majority of independent directors, the Board is responsible for the oversight of the operation of Aveo's Managed Investment Schemes (**Schemes**).

The Board of the Responsible Entity receives quarterly reports from the Compliance Officer in order to monitor compliance with the Schemes' compliance plans and risk management systems. The Responsible Entity also has compliance measures, policies and procedures in place which set out the procedures required to be followed to ensure compliance with its risk management obligations under the *Corporations Act 2001* and its Australian Financial Services Licence.

Review and Board commitment

This Policy will be reviewed at least biennially by the Board to ensure its continued application and relevance.

The Group Head of Audit & Risk, in consultation with the Committee and National Executive, will review the implementation and effectiveness of this Policy, Aveo's ERM Framework and the suitability and sufficiency of risk reporting on an annual basis.

Aveo is committed to effective risk management and recognises it as a core managerial capability.

All queries regarding this policy should be directed to the Group Head of Audit & Risk.

This Policy was reviewed and updates approved by the Board on 12 February 2018.