



Powerhouse Ventures Limited (PVL) RISK MANAGEMENT FRAMEWORK

Risk Management Framework for PVL

1. Introduction

This Risk Management Framework (**Framework**) applies to Powerhouse Ventures Limited (**PVL**).

The Framework is based on AS/NZS ISO 31000:2009 Risk Management - Principles and guidelines (the **Standards**) and provides the foundations and organisational arrangements audited by PVL in respect to risk management.

The Framework is designed to ensure all employees take all reasonable steps in the identification, assessment, monitoring and management of risk within PVL to help facilitate PVL to achieve its strategic and business objectives.

This Framework aims to:

- provide guidance for the context in which risk management within PVL should be considered;
- ensure appropriate communication and consultation at each stage of the process;
- ensure risk identification is an integral part of the management of PVL;
- ensure risk levels are analysed according to accepted standards;
- establish criteria for the evaluation of risks;
- provide guidance for the appropriate treatment of risks;
- ensure appropriate records of PVL's risks are kept;
- ensure the risk management system is subject to appropriate monitoring and review; and
- approve and continually maintain the risk appetite statements to ensure PVL's strategic initiatives and business activities are within the boundaries of activity that the Board intends for PVL, as set within the risk appetite statements.

The Framework forms an iterative process as depicted in Figure 1 below, and detailed further in this document.

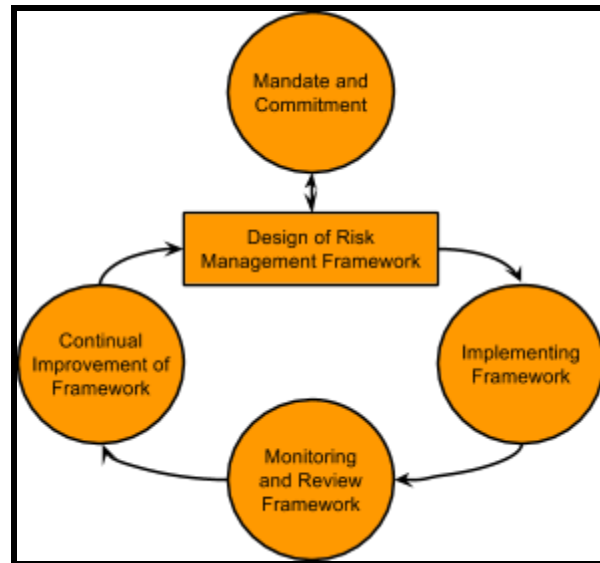


Figure 1

2. Mandate and Commitment

Strong and sustained commitment to risk management is required from the Board and the Executive of PVL to ensure effectiveness. As noted in the Standards, the Board and Executive should:

- define and endorse the risk management policy;
- ensure that the organisation’s culture and risk management policy are aligned;
- determine risk management performance indicators that align with performance indicators of the organisation;
- align risk management objectives with the objectives and strategies of the organisation;
- ensure legal and regulatory compliance;
- assign accountabilities and responsibilities at appropriate levels within the organisation;
- ensure that the necessary resources are allocated to risk management;
- communicate the benefits of risk management to all stakeholders; and
- ensure that the framework for managing risk continues to remain appropriate.

3. Framework Design

3.1 PVL and its context

In designing and implementing the framework for managing risk, it is important to evaluate and understand both the external and internal context of PVL, as these factors can significantly influence the design of the framework.

The factors that need to be considered include those listed below.

3.1.1 External context

- Social / cultural, political, legal, regulatory, financial, technological, economic, natural and competitive environment, whether international, national, regional or local.
- Sustainability risks, namely economic sustainability (ability to continue operating at a particular level of economic production over the long term), environmental sustainability (ability to continue operating in a manner that does not compromise the health of the ecosystems in which it operates over the long term) and social sustainability (ability of a listed entity to continue operating in a manner that meets accepted social norms and needs over the long term).
- Key drivers and trends having impact on objectives of PVL.
- Relationships with, and perceptions and values of, external stakeholders.

3.1.2 Internal context

- Governance, organisational structure, roles and accountabilities.
- Policies, objectives and the strategies that are in place to achieve them.
- Capabilities (in terms of resources and knowledge e.g. capital, time, people, processes, systems and technologies).
- Information systems, information flows and decision making processes (both formal and informal).
- Relationships with, and perceptions and values of, internal stakeholders.
- Culture.
- Standards, guidelines and models adopted by PVL
- Form and extent of contractual relationships

3.1.3 Disclosures regarding sustainability risks

PVL will disclose on an ongoing basis whether it has any material exposure to economic, environmental and social sustainability risks.

3.2 Framework Parameters

The relationship between PVL's risk management principles, framework and process are detailed in the Risk Management Policy.

Due to the integrated approach of enterprise risk management, this Framework relies upon but is not limited to, the following, which collectively form the foundation of enterprise risk management within PVL:

- the principles herein;
- the PVL Risk Management Policy;
- the strategic planning process;
- the Risk Management Framework
- the PVL Risk Appetite Statement;
- the PVL Risk Management Procedures;
- all risk registers;
- Board approved and mandated policy, including the Board Governance Framework, Code of Conduct policy, Fit and Proper Policy, and Capital and Liquidity Management Policy;
- procedures, system standards and work instructions;
- core business applications and associated internal controls;
- regular reporting, from independent audit, compliance, risk and credit functions to management committees such as the Audit and Risk Committee (as set out in the Audit and Risk Committee Charter), Portfolio Committee (as set out in the Portfolio Committee Charter), the Executive, and the Board;
- budgeting processes;
- Executive, Board and Committee actions sheets and minutes; and
- documented position descriptions with clear accountabilities for risk.

3.3 Risk principles

PVL's overall approach to risk management is based on 'the three lines of defence' model (as shown in Figure 2 below), which supports the relationship between the individual business units, the risk management and compliance functions, internal and external audit and the Board.

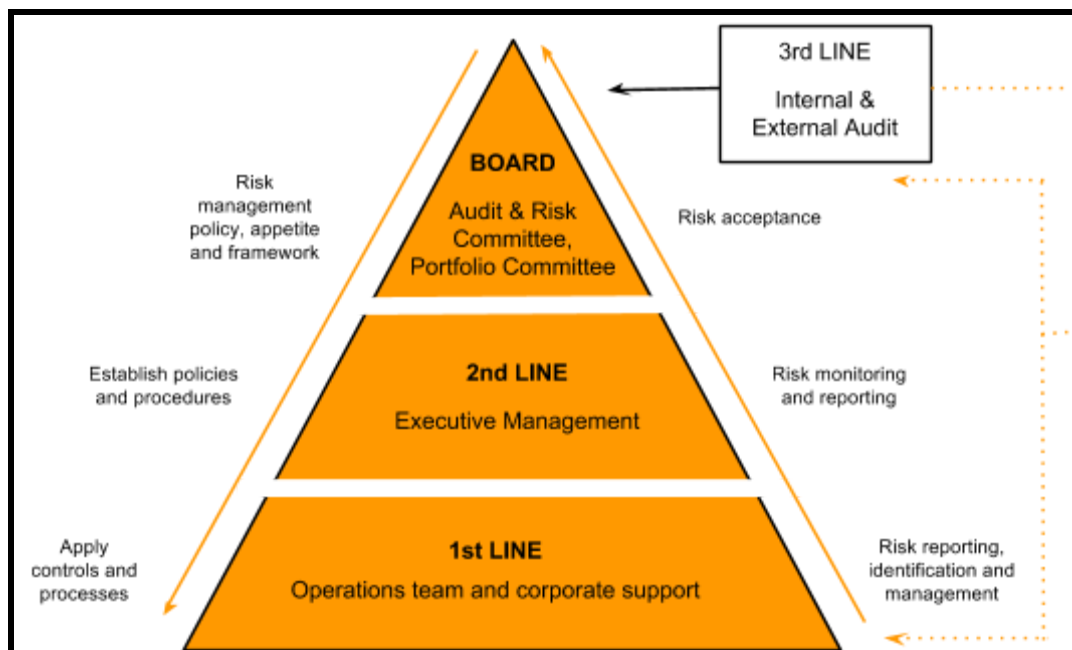


Figure 2

3.3.1 The 1st Line of Defence

Business units are responsible for identifying, evaluating and managing the risks that they originate within approved risk appetite and policies. They are required to establish and maintain appropriate risk management controls, resources and self-assurance processes.

3.3.2 The 2nd Line of Defence

The CEO and Executive Team are responsible for implementing our risk management strategy and frameworks, and for developing policies, controls, processes and procedures for identifying and managing risk in all of PVL's activities.

It also evaluates and opines on the adequacy and effectiveness of 1st Line controls and application of frameworks and policies and, where necessary, requires improvement and monitors the 1st Line's progress toward remediation of identified deficiencies.

3.3.3 The 3rd Line of Defence

Independent assurance is provided by the independent auditors and various external consultants and advisers. External consultants and advisers support management and the Board through ad hoc consulting activities, as required.

3.3.4 The Board

The Board has overall responsibility for PVL's risk management and internal controls, sets the 'tone from the top', sets the strategic objectives, defines the risk appetite and monitors the risk exposure. The Whistleblowing Policy encourages disclosures to be addressed to the Board Chairman and/ or any other Non-executive Director.

3.3.5 The Audit and Risk Committee

From the perspective of specific types of risk, the Board Audit and Risk Committee role includes:

- **credit risk** – approving key policies and limits supporting the credit risks, and monitoring the risk profile, performance and management of our credit portfolio;
- **liquidity risk** – approving key policies and limits supporting the Capital and Liquidity Management Policy, including our capital management plan and liquidity management crisis processes;
- **market risk** – approving key policies and limits regarding market risk as contained in the Capital and Liquidity Management Policy;
- **operational risk** – monitoring the operational risk profile, the performance of operational risk management and controls, and the development and ongoing review of operational risk policies;
- **sustainability risk** - monitoring the identification and disclosure of any material exposure to economic, environmental and social sustainability risks, and how the Group manages or intends to manage those risks;
- **reputation risk** – reviewing and approving the reputation risk issues; and
- **compliance risk** – reviewing compliance processes and our compliance with applicable laws, regulations and regulatory requirements, discussing with management and the external auditor any material correspondence with regulators or government agencies and any published reports that raise material issues, and reviewing complaints and whistleblower concerns.

The Audit and Risk Committee also:

- provides relevant periodic assurances and disclosures to the Board regarding the operational integrity of the risk management framework; and
- refers to other Board Committees any matters that come to the attention of the Audit and Risk Committee that are relevant for those respective Board Committees;
- oversees the effectiveness of the internal control function and relevant risk management systems within PVL.

3.2.6 The Portfolio Committee

The Portfolio Committee reviews the merits of each investment proposal and ensures that investment decisions are aligned with PVL's strategic objectives and within the acceptable risk limits.

4. Implementing Framework

To proactively manage our compliance risks, we must:

- comply with both the letter and 'spirit' of the law while being attentive to the needs of our clients;
- embed the requirements of our regulators into how we do business, how we conduct ourselves and how our systems and processes are designed and operate; and
- maintain a compliance culture where everyone in every part of PVL has responsibility for compliance.

The mechanisms we use to implement our approach include:

- maintaining a strong governance environment;
- identifying obligations, developing and maintaining compliance plans and implementing change with compliance in mind;
- developing, implementing and testing compliance controls; and
- monitoring and reporting incidents, issues and risks.

As with other forms of risk, business unit management is primarily responsible for managing compliance. This is supported by a dedicated legal section covering PVL. The legal function reports to the Chief Financial Officer and Company Secretary.

Regular reports are provided to the PVL Audit and Risk Committee on the status of compliance across the Group.

5. Monitoring, Review and Improvement of Framework

The Board is responsible for reviewing and approving our overall risk management strategy, including determining our appetite for risk. The Board has delegated to the Audit and Risk Committee responsibility for providing recommendations to the Board on PVL's risk- reward strategy, setting risk appetite, approving frameworks, policies and processes for managing risk, and determining whether to accept risks beyond management's approval discretion.

The Audit and Risk Committee conducts an annual review of the risk management strategy.

The Audit and Risk Committee monitors the alignment of our risk profile with our risk appetite, which is defined in the Board Statement of Risk Appetite, and with our current and future capital requirements. The Audit and Risk Committee receives regular reports from management on the effectiveness of our management of PVL's material business risks.