Seven keys to prospering in turbulent times

#1: Know your capacity for risk

- Your risk capacity is the amount of risk that your organisation is able to take without experiencing financial distress.
- Your organisations risk capacity may be limited by external factors (eg regulatory restrictions or bank covenants); internal factors (eg target financial ratios) or stakeholder expectations (eg expected dividends).

#2: Define your risk profile

- Your risk profile summarises the key risks that impact upon your organisation's financial performance. It usually starts with a risk register that records business risks by category (eg strategic, operational, financial, IT, organisational, hazard) and identifies the likelihood and potential impact of loss in each area. The risk register can be summarised to provide the Board and Executive Management a profile of key business risks.
- It is good practice to profile both the "naked risk" (ie the likelihood and impact of a risk event if you do not take any risk mitigating steps) and the "residual risk" (ie the likelihood and impact after employing the risk strategies at Key #4 below).

#3: Quantify your appetite for risk

- Your risk appetite is the amount of risk that your organisation is <u>willing</u> to take. Your appetite for risk should never exceed your capacity for risk.
- Risk appetite must be quantified in terms that are simple to monitor and measure.

#4: Set your risk strategies

- These are the strategies that you will employ to manage risk on a day-to-day basis.
- To develop suitable risk strategies you will need to thoroughly understand the drivers of risk, the likelihood of each risk event occurring and the impact of that event.

#5: Establish your risk control framework

- Your control framework should be driven by a risk policy encompassing Keys #1 to #4 above. It should include processes and controls consistent with the Australian Standard (AS/NZS 4360:2004); be supported by robust infrastructure (systems, procedures, risk measurement methodologies, etc); and managed by people with the right experience.
- The basic principles of good control (such as segregation of duties, single point accountability, clear lines of reporting) can be adapted to apply to an organisation of any size or type (including not-for-profit, government, private or listed companies).

#6: Measure, monitor, manage and report risk

- This is a continuous process that involves anticipating changes to the environment and acting proactively to manage risk.
- The frequency of reporting may vary according to the needs of each organisation but monthly reporting is a minimum requirement.

#7: Test your processes, controls & infrastructure

- Ensuring that you are able to monitor, measure and report requires a robust framework of processes, controls and infrastructure. Audit this framework regularly and make sure the audit team has the necessary skills and experience to ask the right questions.

Basis Risk Pty Ltd

"Risk management is not about eliminating all risks, it is about identifying and responding to risks in a way that creates value for a company and its shareholders.[1] "

Basis Risk assists organisations to identify and respond to risks in a way that creates shareholder value. We achieve this by developing risk frameworks that:

- Are aligned to corporate goals and objectives.
- Reflect corporate risk appetite.
- Include contingency for the unexpected.
- Are supported by robust policy, processes, controls and infrastructure.
- Are in accordance with Australian Standards (AS/NZS 4360:2004) and ASX Principle 7.

We believe that good risk management frees more time for the Board and Executive Management to focus on strategic thinking. In other words, more time spent anticipating risks means less time spent dealing with the consequences.

[1] "Principle 7: Recognise and Manage Risk Guide for small – mid market capitalised companies". Australian Stock Exchange June 2009.

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