



## Treasury & Risk Management Policy

### Introduction

FKP Property Group operates within the following operational and risk management framework.

The policies are reviewed and updated (if required) on an annual basis or a one-off basis if there is a material change in the operating environment covered by the policy or a significant deficiency is discovered.

### Purpose

The purpose of this document is to provide a consolidated statement of FKP's financial risk management policies.

The FKP Board has identified the following financial risks:

1. Interest rate risk
2. Gearing
3. Foreign exchange rate risk
4. Derivatives
5. Borrowing
6. Credit Risk
7. Liquidity Risk
8. Operational Risk

### Roles and Responsibilities

The primary roles in ensuring that FKP's financial risks are appropriately managed are:

- FKP Board;
- Managing Director and Chief Executive Officer (CEO); and
- Chief Financial Officer (CFO)

However, there may be additional input into these processes from external advisers.

The roles and responsibilities of each of these groups are detailed below.

### **FKP Board**

The FKP Board (which includes the CEO) has ultimate responsibility for the financial risk management process.

The FKP Board will:

- approve FKP's Financial Risk Management Policy;
- approve the approach to the management of financial risks;
- review the compliance with the financial risk management policy at its regular meetings; and
- consider and, where appropriate, approve any variations from these Policies.

### **Chief Financial Officer (CFO)**

The CFO is responsible for the day to day monitoring of financial risk exposure, market movements and the development of an appropriate response.

The CFO will:

- oversee the review of this Financial Risk Management Policy as appropriate (at least annually) and recommend changes to the FKP Board.
- oversee, monitor and manage the day to day risk management activities of FKP and implement in an efficient and prudent manner the decisions of the FKP Board;
- maintain appropriate records of FKP debt and hedging portfolio and exposures;
- produce reports on financial risk management activities as required by the FKP Board; and
- review FKP's financial risk management policy and its relationships with banks, counterparties and other external advisors and recommend changes as appropriate.

### **External Advisors**

These parties may be used as required by FKP to provide input into the financial risk management strategy development process and assistance in the assessment of those strategies and the development of reports.

## 1. Interest Rate Risk Management

### Risk

Interest rate risk is the risk that movements in market interest rates adversely impact financial performance. FKP's interest rate risk arises from borrowings which are taken out at variable interest rates and therefore expose FKP to a cash flow risk.

### Risk Management Objective

- To ensure the cost of borrowing on debt is minimised through the effective control and management of interest rate risk whilst maintaining exposure within acceptable levels.
- To protect accounting profit against financial loss due to adverse movements in interest rates.
- To reduce the uncertainty of cash flow due to adverse movements in interest rates.

### Policy

The Group is to manage its interest rate risk in relation to senior debt facilities (excluding project finance) to achieve a hedging range of drawn debt in line with the following matrix:

Time Frame (years)	Minimum Amount Hedged (% of Drawn Debt)	Maximum Amount Hedged (% of Drawn Debt)
1	50	100
2	40	90
3	30	80
4	20	70
5	10	60
7	0	50
10	0	25
> 10	0	0

Year 1 target hedging range is 60% to 80% of drawn senior debt.

For project finance facilities FKP is to maintain hedging of between 75-100% of drawn debt at all times and separate interest rate hedges will be entered into by the Borrower under the project finance facility.

Any deviations from the above policy must be authorised by the FKP Board.

Where possible, borrowings must be in the local currency where the security assets are located.

### Reporting

The following information will be provided to the FKP Board in the CFO's Report:

- Percentage of Hedged Debt to Drawn Debt
- Weighted Average Fixed Rate
- Weighted Average Time to Maturity
- Details of any new hedges entered into by the Group
- Details of any hedges which have matured or been terminated
- Details of the Mark to Market pricing profile (quarterly)
- Interest cost for the period compared to market based interest cost (quarterly)
- Details of any policy breaches

### 2. Gearing

#### Risk

FKP is exposed to cash flow risk that results from borrowings or gearing being unsupported by cash flows generated.

#### Risk Management Objective

- To ensure we monitor debt levels so that FKP has sufficient cash flow to support actual or proposed gearing.

#### Policy

Gearing must not exceed 35% (net bank debt drawn over cash adjusted assets) or such higher percentage as may be approved by the FKP Board from time to time, such as when acquisitions are approved by the Board.

When the gearing is >30%, the CFO will present a paper to the FKP Board outlining the operational reasons for the increase in gearing and a proposed strategy for returning gearing to within the target range of 20% to 30%.

#### Reporting

The following information will be provided to the FKP Board in the CFO's report:

- Actual and forecast gearing
- Details of any policy breaches

### 3. Foreign Exchange Risk Management

#### Risk

FKP's foreign exchange risk arises from holding assets or liabilities in foreign currency (balance sheet risk) or from transactions or cash flows denominated in a foreign currency (cash flow risk).

Balance sheet risk can impact the Net Tangible Assets (NTA) whereas cash flow risk is more likely to impact potential equity distributions or other operational cash requirements such as the repayment of debt.

#### Risk Management Objective

- To ensure that FKP has appropriate procedures in place to mitigate the adverse impact of movements in foreign exchange rates.
- To protect accounting profit against financial loss due to adverse movements in foreign exchange rates.
- To reduce the uncertainty of cash flow due to adverse movements in foreign exchange rates.

#### Policy

##### Balance Sheet Risk

FKP's policy is to hedge capital positions on the following basis:

- Asset/Liability >A\$10m is to be hedged 50% – 100%;
- Asset/Liability <A\$10m or Board Approved sale of Asset/Liability within next 12 months is to be hedged 0% – 100%

##### Cash Flow Risk:

##### Foreign currency denominated distributions from investee companies

FKP invests in foreign companies such as US Senior Living. Where foreign currency denominated distributions forecast to be received from investee companies are to be used to fund equity distributions to investors, FKP's policy is to remain unhedged. Where possible, the distributions to investors should be made in the foreign currency to create a natural hedge.

Where foreign currency denominated distributions forecast to be received from investee companies are to be used for purposes other than to fund equity distributions to investors, the distributions should be hedged on the following basis:

- Annual Cash Flow >A\$10m is to be hedged 50% – 100%;
- Annual Cash Flow <A\$10m is to be hedged 0% – 100%

##### Foreign currency transactions (other than distributions from investee companies)

All significant (>A\$1m equivalent) transactions involving movements between currencies should be adequately hedged once the transaction and its size become sufficiently certain.

### Approvals

- All FX transactions require approval by the CEO or CFO prior to the transaction being entered into.

### Reporting

The following information will be provided to the FKP Board in the CFO's report:

- Open foreign exchange transactions and value of those transactions
- Details of any policy breaches.

### 4. Derivatives

#### Risk

The risk that FKP suffers financial loss from entering into inappropriate derivatives.

#### Risk Management Objective

- To ensure that FKP enters into derivatives transactions that hedge risk appropriately.

#### Policy

Derivative transactions must only be entered into with a suitable financial institution with whom FKP have entered into an ISDA and in accordance with the Credit Risk Policy.

#### Approvals:

CEO approval is required for the following Derivative transactions:

- Interest Rate Hedges >A\$100m and/or with a tenor of >5 years
- FX Hedges >A\$10m and/or with a tenor of >1 year

CFO approval is required for the following Derivative transactions:

- Interest Rate Hedges ≤A\$100m and/or with a tenor of ≤5 years
- FX Hedges ≤A\$10m and/or with a tenor of ≤1 year

#### Reporting

The following information will be provided to the FKP Board in the CFO's report:

- Details of all Derivative Transactions that have been entered into by FKP
- Details of any policy breaches

### 5. Borrowings

#### Risk

The risk that FKP suffers financial loss from entering into borrowings that are inappropriate in terms or volume in relation to FKP's future cash flow. The risk that unfavourable market conditions result in an unacceptable increase in margins or the inability to refinance the same volumes of borrowings.

#### Risk Management Objective

- To ensure that FKP enters into borrowings that have appropriate terms and volume commensurate with forecast cash flows.
- To ensure that FKP has enough time to plan the most efficient method of refinancing including approaching different financiers if required.

#### Policy

Borrowings must be made in accordance with the FKP constituent documents. Any borrowing restrictions in the constituent documents including partnership agreements or in representations in offering documents must also be met.

FKP will report and monitor the maturity and amortisation profile of all debt facilities on a monthly basis and at least 6 months prior to the maturity of a debt facility >\$100m (and 3 months if ≤\$100m) will present a draft refinancing plan for the approval of the FKP Board.

#### Approvals

For all new borrowings and refinances the CFO will draft a strategy paper outlining the key terms and parameters of the proposed borrowing including:

- The reason for borrowing
- The plan for loan repayment
- The resulting leverage/gearing of FKP after debt is in place
- Results of sensitivity analysis performed on key factors impacting the financing and any necessary refinancing
- Maturity profile of all FKP debt in place and how tenors are being managed to reduce payment or refinancing risk
- Key debt covenants and accelerations events and sensitivities regarding both, with particular focus on ensuring that risk of default from factors outside the managed vehicle's control is sufficiently low.

The FKP Board will review the CFO's cash flow forecasts.

Once the strategy paper has been endorsed by the board, draft term sheets for all borrowings in excess of \$50m are to be presented for the approval of the board. Borrowings of \$50m or less can be approved by the CEO and CFO, acting jointly, where the borrowing will not breach the policy or the relevant strategy paper.

#### Reporting

The following information will be provided to the FKP Board in the CFO's report:

- Details of all borrowings that have been approved
- Details of any policy breaches

### 6. Credit Risk

#### Risk

Credit risk is the risk of a counterparty failing to complete its contractual obligations when they fall due.

#### Risk Management Objective

- To ensure that FKP only deals with well established financial institutions of high quality credit standing.
- FKP counterparties are broadly limited to financial institutions (for cash deposits and swap counterparties), construction debtors (external construction work) and residents (DMF/capital gain). DMF/capital gain revenue is recovered from the proceeds due to the outgoing residents therefore risk of non-collection is minimal and for the purposes of this Policy excluded from this policy as is construction debtors.

#### Policy

##### Financial Institutions

The cash management philosophy is to maintain cash in a highly liquid and low risk portfolio.

Transactions must be in high quality, short term money market instruments to ensure the preservation of capital at all times.

- The following limits must be observed so that cash amounts up to a limit may be invested with a single, suitably rated, institution without CEO approval.

Minimum Credit Rating of Financial Institution (S&P/Moody's)	Maximum held with Financial Institution \$m
A-1+ / P-1	100
A-1	75
A-2 / P-2	25
A-3 / P-3	1
B or lower	0

- All financial cash investments (>A\$1m) must be invested with a financial institution that has a minimum short term credit rating of A-2 / P-2 or higher;
- The term of any transaction must not exceed 180 days without CFO approval;
- A minimal cash balance, required to meet payments, must be maintained in each entity's operating account in order to meet ongoing expenses of the entity.

Subject to the lenders requirements, FKP will not enter into financial contracts with financial institutions that have a long term credit rating lower than BBB+ (Standard & Poors) or Baa1 (Moody's). FKP will also seek to spread its credit exposures, where practical and commercially appropriate, by using multiple counterparties for its financial transactions.

#### Reporting

The following information will be provided to the FKP Board in the CFO's report:

- Details of all financial transactions (>\$1m) held by entity and financial institution
- Details of any policy breaches

### 7. Liquidity Risk

#### Risk

Liquidity risk is the risk of FKP not being able to meet its obligations to pay its debts as and when they fall due and payable.

#### Risk Management Objective

- To ensure that FKP has in place appropriate measuring and reporting techniques to ensure that FKP will have sufficient cash or access to cash to meet its debts as and when they fall due.

#### Policy

On a regular basis, the Corporate Finance Team prepares a cash forecast for review by the CFO and for presentation to the CEO and the FKP Board as appropriate.

The cash forecast is based on the information submitted in the Capital Allocation Models (CAMs). The CAMs are prepared by the EGMs of the FKP Business Units, approved by the COO and checked and updated by the Corporate Finance Team for inclusion in the Cash Forecast Model. All Corporate Finance cash flow forecasts models are protected to ensure unauthorised changes cannot be made.

In order to ensure that FKP is able to meet short-term commitments (i.e. less than 12 months) and have sufficient time to plan and fund longer term commitments, forward commitment tests must be satisfied unless exemptions are approved by the FKP Board.

The current test is:

- 100% of forward commitments due within 6 months; and
- 75% of forward commitments due within 7-12 months; and
- 50% of forward commitments due within 13-24 months; and
- 25% of forward commitments due within 25-60 months

are not at any time to exceed total liquidity facilities, being the same as available cash (definition 2), undrawn committed standby facilities, and investments in marketable listed securities).

### Definition 1 – Forward commitments

Forward commitments are binding commitments that require future funding and include commitments to make investments, repay borrowings or pay declared distributions. A binding commitment is an obligation in which there are no matters pending (such as final due diligence or legal conditions) within FKP's control that remove or reduce FKP's obligation to fund the commitment.

Where a commitment is structured such that settlement will not be, or is very unlikely to be, in the form of cash or other liquid resources (e.g. through the issue of securities), the commitment should be excluded.

Where specific, committed funding exists in relation to a particular commitment, such as an underwritten capital raising or secured cash deposit, the net commitment should be used.

Where a distribution has been declared (by resolution of the FKP Board), the declared distribution should be included in the forecast. Proposed or forecast distributions should be excluded from the test, but included in cash flow forecasting. Non-underwritten DRP proceeds should only be netted off when take-up levels have been confirmed by the registry.

Where drawdown's under a debt facility may be rolled under the same facility, the repayment due date for the purposes of the test should be the expiration date of the facility rather than the maturity of the individual drawdown.

Where a debt facility is due to expire it is only to be included as a forward commitment if maturing within 6 months and the Financier has formally advised FKP that they will not extend the facility and FKP has not obtained credit approval from a new financier to refinance the existing debt facility.

### Definition 2 – Available cash

Available cash includes cash on hand, deposits held at call with banks and investments in money market instruments, but excludes blocked/secured deposits.

Forecast cash inflows should not be included as liquidity. The lower required coverage by current liquidity for commitments due after more than one year allows sufficient lead time to source any additional required funding (including from future cash inflows).

On an ongoing basis and prior to committing to a new investment, declaring a distribution or taking any other action that would materially impact the test, the CFO must review the potential impact on the test.

### Reporting

The following information will be provided to the FKP Board in the CFO's report:

- Cash flow forecasts are presented to the FKP Board at their regular meetings. This includes a 3 year cash flow forecast presented annually and a 3 year cash availability forecast presented monthly.
- Details of any policy breaches

### 8. Operational Risk

#### Risk

The risk that mismanagement, error, fraud, omission or unauthorised use of processes and procedures in relation to the financial risk management results in financial loss to FKP.

#### Risk Management Objective

- To ensure appropriate monitoring and reporting procedures are in place to prevent and identify breaches of the financial risk management policies.

#### Policy

FKP will control risk by:

- Maintaining a Risk Management Policy and Framework;
- Maintaining a Financial Risk Management Policy;
- Ensuring that financial risk management activities are undertaken by appropriately skilled staff – both internal and external;
- Ensuring that adequate information systems are in place to monitor and assess risk management strategies;
- Monitoring compliance with FKP's Financial Risk Management Policy;
- Being subject to annual audit performed by FKP's external auditors; and
- Quarterly reporting of all breaches of policies to the FKP Board.

#### Reporting

The following information will be provided to the FKP Board in the CFO's report:

- Quarterly compliance reporting is presented to the FKP Board