RISK MANAGEMENT FRAMEWORK

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1. Introduction

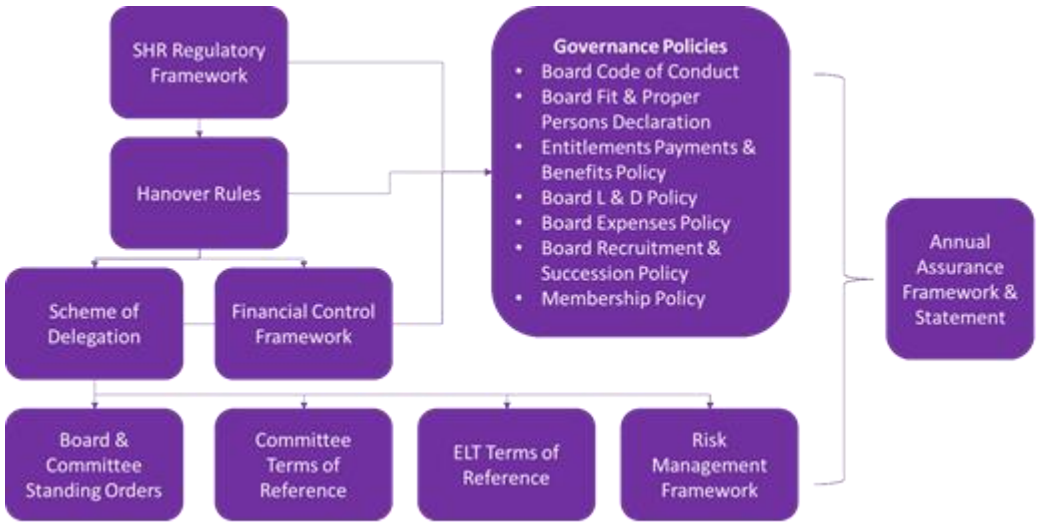
1.1 Risk is the effect of uncertainty on objectives. An effect may be positive (an opportunity) negative (a threat) or a deviation from the expected. Risk is often described by an event, a change in circumstances or a consequence.

1.2 Risk can be defined as: “Any event which impacts on the organisation’s ability to meet its key objectives” and, risk management is therefore defined as: “The strategies employed to manage risks by deciding to Tolerate, Treat, Transfer, or Terminate them.” Risk Assessment is the systematic process of identifying and analysing risks.

1.3 Risk management is the coordination of activities to direct and control an organisation with regard to risk.

1.4 Hanover will implement a Risk Management Framework, a set of activities that support the risk management process. This will ensure arrangements are in place for designing, implementing, monitoring, reviewing and continually improving risk management as a means of minimising the impact of undesired and unexpected events on its business activities.

1.5 The Risk Management Framework is a fundamental part of the Hanover Good Governance Guide (see diagram below) and our overall approach to governance and assurance.



1.6 The Risk Management Framework will provide a process for identifying risks, estimating their potential consequences, and determining the most cost-effective method of controlling them and/or responding to them. The framework examines the relationship between risks and the cascading impact they could have on Hanover’s strategic goals.

1.7 Hanover recognises that risk is inevitable and risk taking is an essential requirement for any organisation seeking continued success.

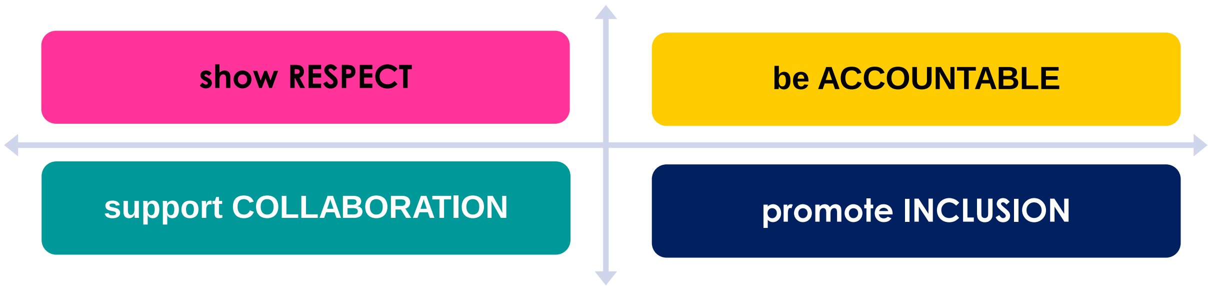
1.8 New opportunities, including new developments will occur from time to time. The Business Opportunity Policy and Procedure will be followed in the evaluation and approval of all opportunities to ensure due consideration and approval has been given. An appraisal matrix will be used to capture and score the strategic alignment, viability, and potential risk of the opportunity.

1.9 Hanover recognises that some level of risk will always exist. It is acknowledged that taking risks in a controlled manner is fundamental to innovation and the building of a can-do culture.

1.10 In this respect Hanover will work within an overriding control environment, which involves regular review of all risks facing Hanover, both from existing activities and from new business. It will manage risk in order to minimise exposure.

1.11 Hanover has a moral and statutory duty of care to its customers, employees, and assets. It will meet this duty by ensuring that risk management plays an integral part in the management of Hanover and will make all employees aware of these risks through training and communication.

1.12 Our principles of risk management are underpinned by Hanover's four values. Hanover lives by these four core values to ensure that everything we do as an organisation and as individuals demonstrate integrity and accountability. We use these four core values to guide our decision making from Board to operational service delivery.



1.13 Employees will receive training to help them implement the framework to manage risks effectively. The Board and Audit, Performance & Risk (APR) Committee members, in line with the Scheme of Delegation will also ensure that framework implementation is monitored and reviewed on a regular basis.

1.14 The framework will support the achievement of Hanover's strategic objectives and values as outlined in the Strategy and Business Plan as follows:

- **Happy Customers** – We want our customers to be happy: happy with the quality of their homes; happy with the services they receive; and happy with how we engage with them. Ultimately, we want our customers to be happy with the quality of their lives.

- **Desirable Homes** – Ensuring our existing homes meet modern standards and continue to allow customers to live independently is our (and our customers') top priority.

- **Resilient Organisation** – Resilience means not only being able to weather the storms, but to thrive rather than survive. We want to build a modern operating model based on sound evidence which supports flexibility and choice and embraces a strong digital offer.

2. Principles and Objectives of Risk Management

2.1 The main principle of risk management is that it delivers value to the organisation. Risk management activities should be designed to achieve the best possible outcome and reduce volatility or uncertainty of outcomes. Hanover's Risk Management Framework will ensure that risk management is:

- **P**roportionate to the level of risk within Hanover.
- **A**ligned with other business activities.
- **C**omprehensive, systematic and structured.
- **E**mbedded within business processes and procedures and
- **D**ynamic, iterative, and responsive to change

2.2 The above principles will be supported by key objectives:

- To ensure compliance with good risk management practice across Hanover.
- To ensure clear definition of roles, responsibilities and reporting lines within Hanover for risk management.
- To raise awareness and reinforce the importance of effective risk management to all those connected with Hanover's delivery of service.
- To maintain a register of risks linked to Hanover's strategic and operational objectives.
- To include risk management implications when writing reports and considering decisions.
- To maintain documented procedures for supporting the control of risk.
- To ensure the Business Continuity Plan (BCP) is reviewed and updated as risks are identified or evolve.
- To monitor risk management arrangements and seek continuous improvement.

2.3 The objectives for risk management outputs are: less disruption to normal efficient operations, a reduction of uncertainty in relation to tactics and improved decisions in relation to evaluation and selection of alternative strategies. Risk management should therefore deliver the acronym MADE2:

- **M**andatory
  Ensure conformity with applicable rules, regulations and mandatory obligations
- **A**ssurance
  Board and Audit Committee are assured that the risk management and internal control activities comply with the principles of risk management (PACED);
- **D**ecision Making
  Risk management activities ensure that appropriate risk-based information is available to support decision making.
- **E**ffective and **E**fficient core processes
  Risk management considerations will assist with achieving effective and efficient strategy, tactics, operations and compliance

3. Risk Universe, Appetite, Tolerance

3.1 The Risk Universe is all the risks that Hanover might face.

3.2 Risk tolerance, or risk capacity, is about the level of risk Hanover is willing to withstand.

3.3 Risk tolerance is part of the wider universe of risk and risk appetite is part of the risk tolerance. They all cover the same set of risks, but successively a lesser portion.

3.4 Risk Appetite is the immediate or short-term willingness of an organisation to undertake an activity that involves risk.

3.5 Hanover's Risk Appetite will be set annually by the Board. This will be done alongside the annual review of the Corporate Strategy & Delivery Plan.

3.6 Risk appetite can be defined as the amount and type of risk Hanover actively wishes to engage with in order to meet strategic objectives.

3.7 Risk Appetite will be used in the risk evaluation phase of the risk management process, which is the next phase of the process after the risks have been rated in terms of likelihood and impact.

3.8 The decision on risk appetite is normally taken within the context of other business decisions, rather than as a stand-alone decision. Risk should not be managed out of context, therefore, questions about the risk appetite can only be answered within the context of the strategy, tactics, operations, and compliance activities being considered.

3.9 The risk appetite may not remain or be static; the amount of risk Hanover is prepared to take may vary depending on the circumstances.

3.10 Therefore, whilst Hanover's risk appetite is stated in each category shown in the table at 3.15, it's necessary to continue to consider that circumstances might dictate a different approach in each situation.

3.11 The representation of appetite follows Hanover's risk scoring as specified at point 4.2 of this framework, and the two should be used together.

3.12 The risk appetite of Hanover is represented visually in the table on the following page (3.15), the table shows the acceptable risk scores in each category. This details that for political risks, Hanover is willing to accept Amber/Medium High risks in some cases, while for legislative risks it is necessary to bring risk scores down to a medium level i.e., below a risk score of 10. Conversely, a High/Red risk is not necessarily outside of bounds if it falls under technological or strategic risk.

3.13 The residual risk assessment score will be monitored against the agreed risk appetite for that type of risk. Generally, Hanover's policy is to manage closely all risks with a residual risk score of 10+ and not tolerate risks scoring 16+

3.14 Where the residual risk score remains above the risk appetite, the ELT, and ultimately, the Board will consider whether any/what further action is required.

3.15 The risk appetite statements provide further guidance on the spectrum within the overall appetite shown in the table on the following page and can be found at ***Appendix 3***.

Category	Averse - Low	Cautious - Medium	Open – Med High	Eager - High
Political				
Economic/Financial				
Social/Reputational				
Technological				
Legislative				
Environmental				
Strategic				

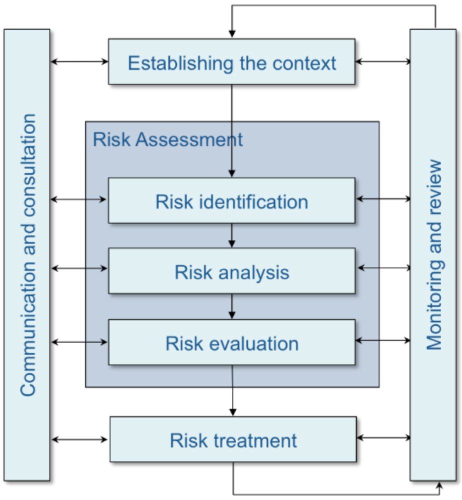
3.16 Example impact descriptors (benchmark test for risk significance) are described as being between marginal and catastrophic and are located at ***Appendix 2***. The descriptors are examples only and are flexible, in proportion to the associated risk.

3.17 The impact descriptors link to Hanover's risk classification system of "PESTLE" – the table below shows the examples of risks contained in the PESTLE model.

P	Political	Tax policy, employment laws, political stability etc.
E	Economic (Financial)	Growth/decline, cost of living, inflation/exchange rates etc.
S	Social	Cultural norms, health consciousness, population growth rate etc.
T	Technological	New technologies, changes that impact products or services
L	Legislative	Changes to legislation that impacts business activities
E	Environmental	Environmental aspects

4. The Risk Management Process

4.1 In order to facilitate the Risk Management Framework, Hanover will follow the process outlined below:



4.1.1 **Risk Identification:** Recognising and understanding potential hazards is critical if informed decisions are to be made and managed effectively. Risks are identified in relation to the achievement of objectives. It can involve looking at data, trends, experiences of other RSLs and the requirements of customers and other stakeholders (e.g., the Regulator or lenders).

4.1.2 **Risk Analysis:** Assessing the likelihood and impact of potential risks, enabling Hanover to implement controls.

4.1.3 **Risk Evaluation:** Appraising the risk against the established risk criteria (risk appetite) to determine whether additional action is required. Evaluating and scoring risks to assess how likely they are to occur and the impact they could have.

4.1.4 **Risk Treatment:** Taking action to minimise the likelihood of the risk occurring. Balancing the potential benefits of introducing further risk treatment (controls) against the associated cost, effort or disadvantages.

Controls include:

- Treating reduce likelihood and/or impact
- Tolerating accepts through informed decision making
- Transferring insuring or outsourcing
- Terminating avoid by not doing activity or remove the source.

4.1.5 **Risk Monitoring:** Annually reviewing the effectiveness of risk controls and the nature of the risk, which is critical for Hanover to successfully manage risk.

4.2 Each evaluated risk is given a two-part score based on the 'likelihood' of the risk occurring (within the lifetime of the achievement of the objective) and the 'impact' of that risk on Hanover's business. These scores, when evaluated against the risk matrix, result in a residual risk score. This risk score is then captured within the Strategic (or Operational) risk register.

Example

A risk which has been determined as having a **probable likelihood** and a **moderate impact** would achieve a risk score of **12** when plotted on the matrix. This determines the risk as being medium high (amber) and therefore subject to quarterly review.

LIKELIHOOD
Very Highly Likely
Highly Likely
Probable
Occasional
Remote
Unlikely

IMPACT
Catastrophic
Critical
Moderate
Marginal

LIKELIHOOD	Marginal	Moderate	Critical	Catastrophic
Very Highly Likely	15	19	22	24
Highly Likely	11	16	20	23
Probable	7	12	17	21
Occasional	4	8	13	18
Remote	2	5	9	14
Unlikely	1	3	6	10

IMPACT

Category	Risk Rating	Risk Scores	Review Period
A	HIGH	≥16	Monthly
B	MEDIUM HIGH	11 - 15	Quarterly
C	MEDIUM	7 - 10	Every 3 - 6 months
D	LOW	1 - 6	Every 12 months

4.3 Risk registers are a key management tool. A risk register supports the identification, assessment and monitoring of risk. Risk registers also provide useful information on risk trends and action planning and offer a means of sharing of lessons / good practice across Hanover.

4.4 The Strategic risk register, forms an essential part of the planning process. Having established the risks faced by Hanover, and identified and implemented controls, Hanover is able to take informed decisions and forward plan.

4.5 All risks on the Strategic risk register directly link to the current Strategic Objectives within Hanover's Risk Management Information System, JCAD Core.

4.6 At a team level, the Operational risk registers, (linking to the Strategic risk register and thus the Strategic Objectives) give assurance to management and auditors that operational risks are being identified and managed. Operational risk registers detail those risks that relate to loss resulting from inadequate or failed internal processes, people and systems.

4.7 It is expected that decisions are made at an operational level to determine whether a risk is recorded on Operational risk registers or not. If the risk needs to be escalated to strategic level, then the decision will be that of the relevant member of ELT.

4.8 Heads of Service, supported by the Risk and Assurance Manager will monitor and review Operational risk registers, in accordance with the risk review periods outlined at 4.2, to identify any significant change in the impact and/or likelihood of risks. Any changes will be discussed during risk review meetings (or earlier if required) and these discussions will determine whether the risk should be escalated.

4.9 Any operational risks that have significantly escalated will be considered by ELT with a view to adding to the Strategic risk register.

4.10 Examples of when risks may need to be escalated to the next level of seniority are, but not limited to:

- The risk is of significant concern (i.e., red risks)
- The risk is outside of the boundaries of authority responsibility, or control of the risk owner or
- Actions to manage the risk require additional resources or requires more senior approval

4.11 There may be occasions where high level risks will be managed at the directorate/operational level, this is determined by judgement, from the relevant ELT member for that risk, and consideration during the risk evaluation process.

4.12 The Risk and Assurance Manager and ELT will use the Strategic risk register review meetings as a forum to discuss and determine any de-escalation of risks to an operational level.

4.13 The Board will be informed of any significant risk escalation.

4.14 Management actions to mitigate risks will be recorded within the JCAD system and automated reminders will be generated to the relevant employee to provide progress updates. Management action progress will be reviewed as part of risk review meetings.

4.15 Management action identification and progress will correlate with those actions documented on Hanover's Delivery Plan (see section 5.9 – 5.13).

4.16 Management actions will not be recorded within the Strategic risk register but will be recorded at an operational level.

5. Reviewing, Monitoring and Reporting

5.1 The Risk Management Framework will be reviewed and monitored in conjunction with the Strategy and Business plan. Hanover will continually:

- assess existing risks (to monitor whether or not the risk profile is changing)
- identify new risks and
- ensure the implementation of effective control measures.

5.2 All areas of risk identified during the Internal Audit process will be recorded in JCAD Core and managed through this platform. The Risk and Assurance Manager pursues monthly progress updates which are then reported at SMT bi-monthly and OMT at every meeting.

5.3 APR Committee will receive audit performance, risk and assurance reports at each meeting.

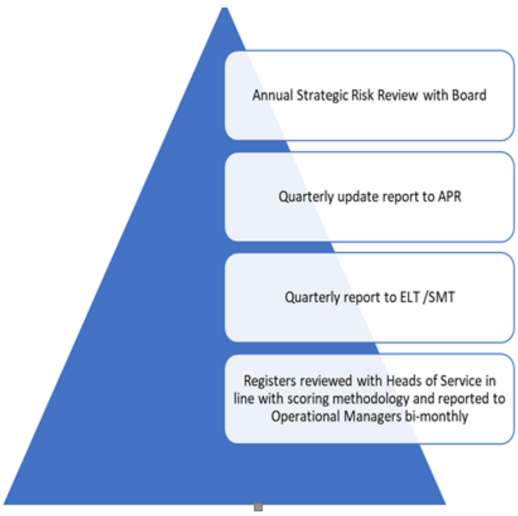
5.4 APR Committee will receive all internal and external audit reports and monitor management responses.

5.5 To ensure all risks are captured, Board, Committee and ELT papers will fully document details of any risk implications. If it is determined that a risk should be recorded onto a risk register (Strategic or Operational) the Risk and Assurance Manager will be notified in order that the risk process (4.1) is initiated.

5.6 APR Committee will provide verbal updates to the Board alongside the minutes after each meeting and will provide an annual report, on assurance, to the Board, including that the risk framework has been followed.

5.7 The Strategic risk register is a live document and will be presented at all meetings of the APR Committee. A Risk Map, or Heat Map, showing Strategic and Operational risks will also be presented.

5.8 Both the Strategic and Operational registers are monitored, reviewed, and updated in line with the risk review periods outlined at section 4.2, escalation/de-escalation will be considered at this time also.



Board

- Overall responsibility for risk governance and risk management
- Reviewing and setting Hanover's risk appetite and approval of Strategic risks

Audit, Performance & Risk Committee

- Scrutinising Hanover's risk management framework
- Reviewing the strategic processes for risk, control, and governance
- Scrutinising Hanover's approach to risk appetite and tolerance

Executive & Senior Management Team

- Responsible for implementing the risk framework and risk registers within their areas of responsibility and accountability
- Fostering a culture of risk management and risk awareness
- Actively managing risks through identification of mitigating controls, taking action and regularly discussing and reporting on risks

Governance Team

- Managing the implementation and development of all aspects of the risk function
- Reviewing and updating Hanover's risk management framework and risk registers
- Developing and promoting best practice across Hanover
- Providing specialist risk management guidance, support and advice
- Scrutinising risk mitigation controls

6. Delivery Plan

6.1 Hanover's Delivery Plan details the projects that are being progressed across the business that will see the achievement of Hanover's strategic objectives. The Delivery Plan will be updated monthly by the relevant delivery lead.

6.2 Programme Boards have been established to oversee delivery of each project. The Programme Boards will meet every six weeks and the delivery lead for each project will report on development and key risks attached to the implementation of their project.

6.3 Synergies will be seen between the risks identified as part of the Delivery Plan projects and those identified in the risk registers as all correlate to the achievement of the strategic objectives.

6.4 Monthly updates on Delivery Plan progress will be reported at SMT, and a report will be reported on a quarterly basis to ELT.

7. Roles & Responsibilities

7.1 At every level within Hanover there will be a delegated responsibility for risk management, supported by relevant guidance and sustained by objectives set for that level. All employees will be involved in risk management, relevant to their role.

8. Training

8.1 The purpose of risk management training is to raise basic awareness of risk management concepts and mechanisms, to enable employees to identify and manage risks in their area of responsibility and to strengthen project management through adequate forward planning of potential risks.

8.2 Communication of risk information and providing risk training is to ensure that a consistent response to similar risk events is always achieved.

8.3 The risk culture of an organisation can be defined by leadership, involvement, learning, accountability, and communication (LILAC). The LILAC headings also provide an indication of the components of a successful initiative to embed risk management.

8.4 The involvement, learning, accountability, and communication components of a risk-aware culture are all highly relevant to risk training and risk communication.

8.5 Risk awareness training will be provided to all employees and will be delivered via face-to-face training events and/or through e-learning.

8.6 Training will take a blended learning approach and will be provided by the Risk and Assurance Manager and/or other risk specialists such as insurers or auditors.

8.7 Risk management training is required on a continuous basis, but some examples of when risk management training will be undertaken are:

- When a manager is newly appointed or has been given new or additional responsibilities
- When an individual has been given a new role
- Following a recent incident or loss
- On a refresher basis

9. Review

9.1 This framework will be reviewed annually in line with the corporate Strategy and Business Plan.

Appendix 1

Risk Matrix

Likelihood		*Impact Severity
Very Highly likely	>80%	Catastrophic
Highly Likely	60% - 79%	Critical
Probable	40% - 59%	Moderate
Occasional	20% - 39%	Marginal
Remote	6% - 19%	
Unlikely	<5%	

*Impact descriptors can be found at Appendix 2

LIKELIHOOD	Marginal	Moderate	Critical	Catastrophic
Very Highly Likely	15	19	22	24
Highly Likely	11	16	20	23
Probable	7	12	17	21
Occasional	4	8	13	18
Remote	2	5	9	14
Unlikely	1	3	6	10

IMPACT

Risk Rating	Risk Scores	Review Period	
High	≥16	Monthly	Will undoubtedly happen / recur, possible frequently Unacceptable level of risk exposure which requires immediate corrective action to be taken
Medium High	11 – 15	Quarterly	Might happen or recur occasionally Acceptable level of risk exposure subject to periodic passive monitoring measures
Medium	7 – 10	Every 3 – 6 Months	Might happen or recur occasionally Acceptable level of risk exposure subject to periodic passive monitoring measures
Low	1 - 6	Every 12 Months	Do not expect it to happen / recur but it is possible it may do so Acceptable level of risk exposure subject to periodic passive monitoring measures

Appendix 2

Impact Descriptors

	Political	Economic / Financial	Social / Reputational	Technological	Legislative	Environmental	Strategic Objective Performance
Marginal	No change to classification	0.5% of either a Capital or Revenue Budget	Minor article in local media or lobby group website (Story un-substantiated)	Interruption negligible; less than 0.5 day. Critical systems unavailable for less than 1 hour	Little to no penalties for breaches or lack of compliance	Little or no impact on assets	Workaround required within HSHA resources to deliver objective. Up to 5% variation in achievement of corporate targets.
Moderate	Criticism or opposition from local politicians	5% of either a Capital or Revenue budget	Headline media interest causing public embarrassment	1 > 7 days	Minor financial penalties	Major impact on assets	>5-25%
Critical	Criticism or opposition from civil servants	10% of either a Capital or Revenue budget	Short term media campaign	7 > 30 days	Breach of duty of care legislation	Significant deterioration in demand for assets	>25-50%
Catastrophic	Classification as a public body Criticism or opposition from Senior ministers	>20% of either a Capital or Revenue Budget	Prolonged national media campaign. Story substantiated, public embarrassment with 3rd party action and widespread news profile	Interruption > 30 days. Critical systems unavailable for more than a day (at a crucial time)	Major criminal implications	Complete deterioration in demand for assets	Unable to deliver objective. Widespread failure to meet housing needs. > 50% variation in achievement of corporate targets

Appendix 3

Risk Appetite Statements

Political

We acknowledge the need to operate within the existing political framework. We also believe it may be necessary to challenge stakeholders' thinking where there are opportunities to be innovative and creative. There may also be occasions where we choose to proactively represent our tenants' interests in the political arena. In order to do this responsibly, we will need to always ensure we do not overexpose ourselves to excessive financial and operational risks. We should only accept medium-high political risks where there is long term gain for tenants or Hanover. We should not be accepting political risks where there is no significant medium to long-term gains.

Economic/Financial

To ensure that we continue to provide great housing and serve our tenants in the best way, we are prepared to take on medium-higher risk of financial losses as long as the possible rewards are also high. When accepting higher financial risk, we should also consider the other financial risks we face at that time. This could include risks associated with changes in government policy, increased costs as a result of the economic situation, or any new requirements that may be placed on us such as increased fire safety standards, or costs associated with the use of sustainable building materials or upgrades.

Before accepting medium-high financial risk we should be confident we can absorb the financial impact, as well as these other uncertainties that could affect our overall financial position.

Social/Reputational

Some reputational risk is acceptable if it is necessary to achieve strategic and operational objectives. While loss of trust or credibility is not a good outcome, sometimes we will have to make unpopular decisions that result in short-term losses for longer term gains.

However, these risks should only be accepted after careful consideration of the impact on the trust of our tenants, staff and regulators.

We should be cautious with risks that could result in a long-term impact on our reputation for quality and high standards. Any risk or action that carries higher reputational risk should also be accompanied by a clear plan for communication and engagement with affected stakeholders.

Technological

We are willing to take an eager approach to technological risk due to the importance of continuous improvement. High levels of risk will only be accepted where these are linked to strategic objectives, and we have confidence end users will make effective use of the technology being deployed. Higher risk initiatives should also draw on learning from others in the sector and involve engagement with bodies - such as Technology Enabled Care in Housing – that have expertise and learning to share. Initiatives must be informed by industry and governing body best practices and tempered by a need to maintain high cyber security and data protection standards at all times. We will also seek to limit our overall exposure to technology risk, for example by not engaging in several high-risk initiatives at the same time

Legislative

We are unwilling to accept actions or risks that could result in a breach of our legislative or regulatory requirements, except in very unusual and limited circumstances. If legislative risks cannot be mitigated to a low level – as defined by our risk scoring – they should be reported to the executive leadership team.

Environmental

We expect there to be a lot of opportunities to positively impact our environment or be an industry leader in adaptation to climate change. This could involve innovative approaches to sustainability or technologies that may expose us to higher levels of risk. We must comply with minimum legal & regulatory standards. Where standards are advisory, we may be able to accept a medium-high level of risk. Where there is an opportunity to future proof or protect homes from the adverse effects of climate change now or in the future, we may accept exposure to a medium-high level of risk. However, we will only do this where there are clearly articulated benefits from doing so.

Strategic

There will be times when we accept high levels of risk to achieve our agreed strategic objectives, where the benefit of doing so is clearly stated and we have confidence in the project or actions pursued. We should be willing to break the mould to deliver outstanding performance. We should ensure innovation is supported with acceptance that it will sometimes result in failure that we can learn and adapt from. We should manage also manage these risks in line with our stated appetite for the other types of risk.