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Risk Management Policy

As at April 2019

Risk Management Policy

Introduction

1. This policy formalises and communicates BNK's approach to risk management. This policy applies to BNK Banking Corporation Limited and its controlled entities "The Group" or "BNK".
2. BNK recognises that managing risk is an integral part of its day to day core business activities and the better risk is managed, the more likely it is that BNK will achieve or exceed its objectives.
3. The board of directors (the Board) of BNK is ultimately responsible for the effective governance of BNK's risk management. In addition, BNK's executives are responsible as "Risk Owners" for ensuring effective risk management, including the implementation of strategies to reduce risks, within their operational areas on a day to day basis.
4. BNK is committed to creating a fully embedded risk aware culture so that risk is understood and managed at all levels, in a consistent and coordinated way, enabling the sharing of knowledge.
5. Actively identifying and managing risks is the responsibility of all Group staff.

Scope

6. This policy applies across all parts of the BNK business.
Definitions (source: AS/NZS ISO 31000:2009 Risk Management – Principles and Guidelines)
7. Risk at BNK is defined as: "the effect of uncertainty on BNK's objectives".
8. Risk Management at BNK is defined as: "the coordinated activities to direct and control an organisation with regard to risk".
9. Risk Owner at BNK is defined as: "a person with the accountability and authority to manage a risk".

Risk Management Framework

10. As an Authorised Deposit-taking Institution (ADI), the risk management framework adopted by BNK is based upon the requirements of APRA's prudential standard CPS 220. The BNK risk management framework also follows the principles from both ISO 31000/2009 Risk Management Principles and Guidelines and Principle 7 of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, titled 'Recognise and Manage Risk'.
11. BNK's risk management framework includes:
 - (a) a Risk Appetite Statement;
 - (b) a Risk Management Strategy;

- (c) a business plan;
- (d) Board approved operational policies.
- (e) management plans and procedures
- (f) a risk management function;
- (g) Risk Owners
- (h) Group staff;
- (i) an Internal Capital Adequacy Assessment Process (ICAAP);
- (j) management information systems; and
- (k) a review process to ensure that the risk management framework is effectively, measuring, evaluating, monitoring, reporting and controls or mitigating material risks.
- (l) a Material Outsourcing Review programme.

Risk Governance and Oversight

12. BNK's approach to risk governance and oversight follows the Three Lines of Defence Model:
 - (a) First Line of Defence – all BNK staff;
 - (b) Second Line of Defence – the Risk Management Function; and
 - (c) Third Line of Defence – Internal & External Auditors
13. All three lines of defence are ultimately accountable to the Board or its delegate.

BNK's Risk Management Process

14. AS/NZS ISO 31000:2009 Risk Management – Principles and Guidelines forms the basis of BNK's risk management process methodology, which is outlined in the Risk Management Strategy.

Authority, Responsibility and Accountability

All BNK Staff

15. Every staff member within BNK is responsible for the effective management of risk, including identifying, responding to and reporting risks and incidents.

Board

16. The Board is ultimately responsible for BNK's risk management framework and the effective oversight of risk within BNK. In particular, the Board is responsible for ensuring:
 - (a) it defines the BNK risk appetite and establishes a risk management strategy;
 - (b) a sound risk management culture is established and maintained throughout BNK;

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(c) senior management take the steps necessary to monitor and manage all material risks consistent with the strategic objectives, Risk Appetite Statement and policies approved by the Board;

(d) the operational structure of BNK facilitates effective risk management;

(e) policies and processes are developed for risk-taking that are consistent with the Risk Management Strategy and the established risk appetite;

(f) sufficient resources are dedicated to risk management;

(g) uncertainties attached to risk measurement are recognised, and the limitations and assumptions relating to any models used to measure components of risk are well understood; and

(h) appropriate controls are established that are consistent with BNK's risk appetite, risk profile and capital strength and are understood by and regularly communicated to relevant staff.

Risk and Compliance Committee

17. The Risk and Compliance Committee has been established to assist the Board oversee its responsibilities relating to BNK's risk management framework.

18. To fulfill its responsibilities the Risk and Compliance Committee has power delegated by the Board to set risk appetite, review and recommend the Risk Management Strategy to the Board for approval; approve frameworks; approve policies and processes for managing risk (consistent with the Risk Management Strategy and risk appetite); and accept risks beyond the approval discretion provided to management.

19. The Risk and Compliance Committee has free and unfettered access to senior management, risk and financial control personnel in carrying out its duties.

Audit Committee

20. The Audit Committee has been established to assist the Board in fulfilling its corporate governance and oversight responsibilities, including examining the results of internal and external audit activity.

Managing Director

21. The Managing Director (MD), under the delegated authority from the Board, is responsible for:

(a) ensuring the Board's responsibilities to the risk management framework are met;

(b) allocation of risk owners to implement controls and strategies to manage and mitigate risks; and reporting

from the risks owners on the performance of these controls and strategies to manage these risks;

(c) in conjunction with the Chief Risk Officer (CRO), conducting periodic reviews of BNK's risk profile; and

(d) fostering a risk aware culture across the BNK business.

Chief Risk Officer

22. The CRO is operationally independent, has a direct reporting line to the MD and has regular and unfettered access to the Board, the Risk and Compliance Committee and the Audit Committee.

23. The CRO has access to all aspects of BNK that have the potential to generate material risk, including information technology systems and systems development resources.

24. The CRO must be involved in, and have the authority to provide effective challenge to, activities and decisions that may materially affect BNK's risk profile.

25. The Risk and Compliance Manager is responsible for:

(a) assisting the Board, Board Committees and senior management (risk owners) to develop and maintain the risk management framework;

(b) notifying the Board or Board Committees of any significant breach of, or material deviation from the risk management framework;

(c) conducting periodic reviews of BNK's risk profile; and

(d) fostering a risk aware culture across the BNK business.

Risk Owners

26. Risk Owners are responsible for the effective identification, management, reporting and control of risk within their area or responsibility and for developing and fostering a risk aware culture.

27. Risk Owners are assigned by the MD.

Internal Audit

28. Internal Audit is responsible for providing an independent and objective assurance to the Board that the risk management framework is being managed appropriately and that controls are designed to manage BNK's risks and are operating in an efficient, effective and ethical manner.

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External Audit

29. External auditors complete a review of BNK's risk management system and internal audit reports on a yearly basis to ensure continuing compliance with BNK's constitution, the APRA Prudential Standards, accounting standards, ASIC and the Corporations Act.

Independent Review

30. At least every 3 years, the Group RMF must be subject to review, to ensure the appropriateness, effectiveness and adequacy of the RMF.