



Risk Management Policy

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Risk Management Policy

Executive summary

Aim & introduction

This Policy applies to MyState Limited (MYS and all MyState Limited Group Companies and subsidiaries.

The aim of this policy is to safeguard the interests of MYS stakeholders through the implementation of procedures and practices that are consistent with the APRA *Prudential Standard CPS 220 – Risk Management*, Standards Australia Risk Management Standard, *AS/NZS ISO 31000:2009 Risk Management – Principles and guidelines* and the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (specifically Principle 7).

Shareholder value is driven by MyState Limited ('the Group') taking considered risks. A risk is an effect of uncertainty on the Groups objectives, this effect can be positive or negative. MYS assesses it's risks by identifying potential events and evaluating the combination of the consequences of an event and the associated likelihood of occurrence. Risks are then assessed against MYS's risk appetite to ensure they are within the boundaries of activity that the Board intends for MYS.

Managing risk is an integral part of doing business and the better risk is managed, the more likely it is the Group will achieve or exceed its objectives. Risk management therefore involves coordinated activities that direct and control the Group with regards to risk. It is the responsibility of every employee of the Group to appropriately manage risk. The Group places strong emphasis on developing and maintaining a risk-aware culture in decision-making and all its operations. In this regard MYS recognises that risk culture can become a key business driver and will seek to create a workplace where employees have the confidence to ask questions and to challenge assumptions about the way the business is conducted.

Definitions

MYS has adopted the following definitions as detailed in AS/NZS ISO 31000:2009

Consequence

Outcome of an event affecting objectives.

Event

Occurrence or change of a particular set of circumstances.

(Note – an event without consequences is referred to as a 'near miss')

Likelihood

Chance of something happening.

Risk

Effect of uncertainty on objectives.

Risk Appetite

The term risk appetite is not defined in AS/NZS ISO 31000:2009. MYS defines risk appetite as the amount of risk MYS is prepared to pursue or take to achieve its strategic objectives. MYS's risk appetite is articulated via a set of risk appetite statements which are measured against key risk indicators and risk tolerance to ensure all risk taking activity is conducted within the boundaries of activities that the Board intend for MYS and all MYS group subsidiaries.

Risk Management

Coordinated activities to direct and control an organisation with regard to risk.

Risk Management Framework

Set of components that provide the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organization.

Risk Management Policy

Statement of the overall intentions and direction of an organisation related to risk management.

Risk Management Process

Systematic application of management policies, procedures and practices to the activities of communicating, consulting, establishing the context, and identifying, analysing, evaluating, treating, monitoring and reviewing risk.

Risk Management Strategy

A stand alone document describing MyState's strategy for managing risk and the key elements of the risk management framework that give effect to the strategy.

Principles

MYS has adopted the principles detailed in AS/NZS ISO 31000:2009, to ensure risk management is effective within the MyState Limited Group. As such MYS will, at all levels, comply with these principles:

1. Risk management creates and protects value.
2. Risk management is an integral part of all organizational processes.
3. Risk management is part of decision making.
4. Risk management explicitly addresses uncertainty.
5. Risk management is systematic, structured and timely.
6. Risk management is based on the best available information.
7. Risk management is tailored.
8. Risk management takes human and cultural factors into account.
9. Risk management is transparent and inclusive.

10. Risk management is dynamic, iterative and responsive to change.
11. Risk management facilitates continual improvement of the organisation.

Risk management framework

The overall framework for Risk Management within the Group is designed so that business units must take all reasonable steps in the identification, assessment, monitoring and management of risk to enable the organisation to achieve its strategic and business goals.

The relationship between the Groups risk management principles, framework and process is show at Figure 1.

The MYS risk management framework is reviewed by the Group Risk Committee, approved by the Board and articulated in a separate document.

Risk management process

The risk management process at MYS will be an integral part of management, embedded in the Groups culture and practices and tailored to the Groups business processes.

MYS's risk management process is reviewed by the Group Risk Committee, approved by the Board and articulated in detail in a separate document.

The risk management process comprises the following activities:

Communication and consultation

Communication and consultation with external and internal stakeholders will take place during all stages of the risk management process.

MYS recognises communication and consultation with stakeholders is important as they make judgements about risk based on their perceptions of risk. These perceptions can vary due to differences in values, needs, assumptions, concepts and concerns of stakeholders. As their views can have a significant impact on the decisions made, the stakeholders' perceptions should be identified, recorded, and taken into account in the decision making process.

Communication and consultation within the Group should facilitate truthful, relevant, accurate and understandable exchanges of information, taking into account confidential and personal integrity aspects.

Establishing the context

By establishing the context, MYS articulates its objectives, defines the external and internal parameters to be taken into account when managing risk, including defining and reviewing the risk appetite statements and tolerances and sets the scope and risk criteria for the remaining process. Whilst the parameters may be similar to those

considered in the design of the risk management framework, they need to be considered in greater detail, particularly with regards to how they relate to the scope of the particular risk management process.

Risk Assessment

The overall process of risk identification, risk analysis and risk evaluation.

Risk Identification

The identification of the sources of risk, areas of impacts, events (including changes in circumstances) and their causes and potential consequences.

Risk Analysis

Risk analysis at MYS involves developing an understanding of the risk. It also provides an input to risk evaluation and to decisions on whether risks need to be treated, and on the most appropriate risk treatment strategies and methods. Risk analysis can also provide an input into making decisions where choices must be made and the options involve different types and levels of risk.

Consequences and their likelihood will be determined by modelling the outcomes of an event or set of events, or by extrapolation from available data. Consequences will then be expressed in terms of tangible or intangible impacts.

Risk Evaluation

The purpose of risk evaluation at MYS is to assist in making decisions, based on the outcomes of risk analysis, about which risks need treatment and the priority for treatment implementation.

Risk evaluation involves comparing the level of risk found during the analysis process with risk criteria established when the context was considered. Based on this comparison, the need for treatment can be considered.

Risk Treatment

Risk treatment within MYS involves selecting one or more options for modifying risks, and implementing those options. Once implemented, treatments provide or modify the controls.

Risk treatment at MYS involves a cyclical process of:

- Assessing a risk treatment;
- Deciding whether residual risk levels are tolerable and within the boundaries of the MYS risk appetite statements;
- If not tolerable, generating a new risk treatment; and
- Assessing the effectiveness of that treatment to ensure MYS is not exposed to an unacceptable level of risk.

Monitoring and review

At MYS monitoring and review is a planned part of the risk management process.

The Groups monitoring and review processes encompass all aspects of the risk management process for the purposes of:

- Ensuring that controls are effective and efficient in both design and operation;
- Obtaining further information to improve risk assessment;
- Analyzing and learning lessons from events (including near-misses), changes, trends, successes and failures;
- Detecting changes in the external and internal context, including changes to risk criteria and the risk itself which can require revision of risk treatments and priorities;
- Identifying emerging risks; and
- Ensuring all business activities are operating within the boundaries of the risk appetite statements, risk tolerances and risk limits.

Recording the risk management process

The Groups risk management activities will be traceable. MYS uses an electronic Enterprise Risk Management (ERM) System to assist with the management and recording of risk management activities throughout the Group. In MYS's risk management process, records provide the foundation for improvement in methods and tools, as well as the overall process.

Deliverables include:

- Risk registers.
- Risk control self assessments.
- Risk management incident reporting.
- Divisional risk management plans.
- An integrated Risk Management report.
- Reporting of risks and key risk indicators to each Group Risk Committee meeting.
- Reporting against key risk indicators to the Board at least quarterly;
- Risks identified as being outside MYS's risk appetite after treatment will be reported to the Board monthly.
- Untreated risks identified and rated as high risk will be reported to the Board monthly.
- Comprehensive annual review of the risk management framework and risk documentation to the Group Risk Committee and the Board.
- Event recovery plans (Crisis Management Plan, Business Continuity Management Policy, Emergency Response Procedure)
- An integrated and tailored Insurance Program.

Responsibility for the risk management framework

The following table details the different responsibilities for the Risk Management process within MYS, in accordance with the principles of this policy.

Risk Management	Board	Group Risk Committee	Senior Executive	Risk Management Function	Business Lines/Units
Mandate and Commit	Own	Own	Contribute	Understand	Understand
Design the risk framework	Oversee	Own	Contribute & direct	Own & action	Understand
Implement the risk framework	Oversee	Review	Own & direct	Monitor & action	Implement & operate
Monitor and review	Oversee	Own	Implement & direct	Monitor & action	Operate & action
Continual improvement	Own	Own & action	Contribute & action	Contribute & action	Contribute
Risk management process	Oversee	Direct	Own & action	Monitor & action	Operation
Risk appetite statement	Set & Own	Oversee	Implement, operate & direct	Monitor & action	Operation

Figure 1 - The relationships between the risk management principles (policy), framework and process

