

# Risk Appetite Statement

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## 1. Introduction

The Credit Union operates in the mid-north coast of NSW with its core operations and business in the Macleay, Hasting and Manning regions.

The Credit Union provides retail loans and deposits to its members with its key obligation to ensure members' deposits are protected.

The Credit Union has a Board elected by members with key Board Committees including Risk, Audit and Remuneration.

This Statement considers the most significant risks to which the Credit Union is exposed and provides an outline of the approach to managing these risks. All strategic plans and business plans for functional areas must be consistent with this Statement.

## 2. Overview of Risk Appetite

The Credit Union faces a range of risks reflecting its charter and its responsibilities to members. These risks include those resulting from its responsibilities in the areas of deposit taking, lending, investment, security of information, financial stability and day-to-day operational activities.

These risks are managed through detailed processes that emphasise the importance of regulatory standards, professionalism, maintaining high quality staff, and accountability to stakeholders.

The Credit Union is not exposed to any risks outside of its retail banking operations; it does not trade in securities or foreign currency, or has any other operation which provides for speculative arrangements.

Balance sheet risks include credit quality and the maintenance of adequate deposits and liquidity.

Interest rate risk includes matching of assets and liabilities over the maturity time period.

In terms of operational issues, the Credit Union has a low appetite for risk. The Credit Union recognises that it is not possible or necessarily desirable to eliminate some of the risks inherent in its activities. Acceptance of some risk is often necessary to foster innovation within business practices.

## 3. Risk Management Framework

The Credit Union's risk management framework seeks to ensure that there is an effective process in place to manage risk across all operations. Risk management is integral to all aspects of the Credit Union's activities and is the responsibility of all staff. Managers have a particular responsibility to evaluate their risk environment, to put in place appropriate controls and to monitor the effectiveness of those controls. The risk management culture emphasises appropriate behaviours, analysis and management of risk in all business processes.

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Risks are identified, assessed and managed at both an enterprise level ('top-down') and business level ('bottom-up'). The Risk Committee, which is chaired by an appropriately qualified Director, has oversight of these processes. This Committee meets at least four times a year and provides a report on its activities to the Board and where appropriate the Audit Committee.

### 4. Coverage

The Credit Union's attitude to its Key Risks is described below.

The following table summarises the Credit Union's Risk Appetite by Risk.

<b>Risk</b>	<b>Appetite</b>
Operational Risk- Information Technology Processing	Very Low
Operational Risk- Information Technology Security	Very Low
Operational Risk- Information Technology Ongoing Development	Low
Operational Risk- Internal Fraud and Corruption	None
Operational Risk- Operational Fraud	Very Low
Operational Risk- Physical Security	None
Operational Risk- Compliance	None
Operational Risk- Information Management	None
Securitisations	Low
Credit	Low
Market	Very Low
Liquidity	Very Low
Governance	None
Outsourcing	Very Low
Strategic Risk	Low
Contagion and Reputation	None
Regulatory	None
People and Culture- Organisational Behaviour	None
People and Culture- Competency	Low
People and Culture- Risk Knowledge	Low
People and Culture- Work Health and Safety	Very Low

#### 4.1 Operational Risk

The Credit Union's appetite for specific operational risks is detailed below. Risks are reviewed and analysed in all the Credit Union's operational activities, including the development and understanding of cost/benefit to ensure that the benefit of the risk control measures exceeds the costs of these measures.

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### (i) Information Technology

Information Technology (IT) risks cover both daily operations and on-going enhancements to the Credit Union's IT systems. These include:

**Processing – Prolonged outage of a core banking system:** The Credit Union has a very low appetite for risks to the availability of systems which support its critical business functions including those which relate to settlements, banking operations and treasury. Maximum recovery times have been identified and agreed with the outsourced supplier.

**Security – Cyber-attack on Credit Union systems or networks:** The Credit Union has a no appetite for threats to its assets arising from external malicious attacks. To address this risk, the Credit Union aims for strong internal control processes and the development of robust technology solutions.

**On-going Development:** The implementation of new technologies creates new opportunities, but also new risks. The Credit Union has a low appetite for IT system-related incidents which are generated by poor change management practices.

### (ii) Internal Fraud and Corruption

The Credit Union has no appetite for any fraud or corruption perpetrated by its staff. The Credit Union takes all allegations of suspected fraud or corruption very seriously and responds fully and fairly as set out in the Code of Conduct.

### (iii) Operational Fraud

The Credit Union has a very low appetite Operational Fraud. This includes lending, card, internet or any other forms of external based fraud. The Credit Union implements current industry base technologies and controls to mitigate fraud attempts.

### (iv) Physical Security

The Credit Union's objective is to provide a highly-secure environment for its people and assets by ensuring its physical security measures meet high standards. The Credit Union has no appetite for the failure of physical security measures.

### (v) Compliance

The Credit Union is committed to a high level of compliance with relevant legislation, regulation, industry codes and standards as well as internal policies and sound corporate governance principles. Identified breaches of compliance will be remedied as soon as practicable. The Credit Union has no appetite for deliberate or purposeful violations of legislative or regulatory requirements.

### (vi) Information Management

The Credit Union is committed to ensuring that its information is relevant, accurate, timely, and, properly conserved and managed in accordance with legislative and business requirements. It has a very low appetite for the compromise of processes governing the use of information, its management and publication. The Credit Union has no appetite for the deliberate misuse of its information.

## **4.2 Securitisation Risk**

The Credit Union has a low risk appetite for Securitisation Risk. Securitisation for the Credit Union is not material and is typically utilised as a liquidity buffer in the event of potential ad hoc needs to manage liquidity.

## **4.3 Credit Risk**

The Credit Union has a very low risk appetite for Credit Risk. The Credit Union utilises lending practices which provide significant assurance that loans will be repaid and exposure to unsecured credit is minimised.

The Credit Union reviews borrower's ability to repay by basing its analysis on interest rates significantly higher than current interest rates. The Credit Union will not accept mortgage secured loans without mortgage insurance where the loan to valuation ratio is greater than 80%. For non-standard mortgage secured loans the Credit Union applies conservative loan to valuation ratios.

Credit Risk is regulated by the Credit Union complying with all the requirements of its Credit Licence and ASIC responsible lending regulations.

The Credit Union operates a Loans Committee to oversee the performance of its loans and ensures resources are current and well trained to deliver on its expectations.

The Credit Union recognises that failure to maintain a low appetite for Credit Risk may result in impacts in relation to Capital Adequacy and threats to operational stability and profit.

## **4.4 Market Risk**

The Credit Union has a very low risk appetite for Interest Rate Risk. The Credit Union's objective is to match its assets and liabilities within an acceptable tolerance. The Credit Union has no appetite to speculate with interest rates.

The Credit Union monitors its gap position monthly and reports this to the Risk Committee quarterly and to the Board monthly.

The Credit Union recognises that failure to maintain a very low appetite for Interest Rate Risk may result in significant impact to profit and its ability to support Capital Adequacy.

## **4.5 Liquidity Risk**

The Credit Union has a very low risk appetite for Liquidity Risk. The Credit Union's objective is to ensure that an adequate liquidity position is maintained to allow desired lending growth to occur. The Credit Union sources its retail deposits from within its membership base and its core markets, accesses deposits from other channels including brokers, and has a securitisation facility available to support its liquidity position.

The Credit Union recognises that failure to maintain a very low appetite for Liquidity Risk may result in ceasing or reducing lending funding, and lack of confidence from stakeholders that deposits are protected.

#### **4.6 Governance Risk**

The Credit Union has no appetite for Governance Risk. The Credit Union ensures substantial structures and guidance is in place.

The Credit Union has an appropriately qualified Board with key committees supporting their oversight. The Credit Union has a code of conduct, a fit and proper process, disclosure process, charters, and organisational values with compliance assurance.

The Credit Union recognises that failure to maintain a no appetite position for Governance Risk may result in behaviours which risk the Credit Unions reputation and stability.

#### **4.7 Outsourcing Risk**

The Credit Union has a very low risk appetite for Outsourcing Risk. The Credit Union is a follower in outsourcing and doesn't enter into green fields outsourcing arrangements for its core business.

The Credit Union will only enter into outsourcing arrangements for core business with substantial and experienced parties which preferably operate within the broader industry with like clients. The Credit Union may outsource where the capability of the party is higher than the Credit Union and will mitigate risks further.

The Credit Union recognises that failure to maintain a very low appetite for Outsourcing Risk may result in systemic breakdowns of operations.

#### **4.8 Strategic Risk**

The Credit Union has a low risk appetite for Strategic Risk. The Credit Union develops and implements strategy within its core competency capability and has a low appetite for threats to the effective and efficient delivery of initiatives.

The Credit Union's strategic capability evolves around its core retail products, membership and key geographic areas of Macleay, Hastings and Manning. The Credit Union has a low appetite in increasing strategic risk beyond these capabilities.

The Credit Union recognises that failure to maintain a low appetite for Strategic Risk may result in failure to deliver its strategic initiatives and objectives which will impact on organisational stability.

#### **4.9 Contagion and Reputation Risk**

The Credit Union has no appetite for Contagion and Reputation Risk.

The Credit Union has a strong governance framework, policies, procedures, systems and support schemes to reduce the likelihood and impact of contagion and reputation risk.

The Credit Union recognises that failure to maintain a no appetite position for Contagion and Reputation Risk may result in behaviours which may create systemic risk and catastrophic outcomes.

#### **4.10 Regulatory Risk**

The Credit Union has no appetite for Regulatory Risk.

The Credit Union has a strong governance framework, policies, procedures, systems and effective audit to mitigate risk in relation to the oversight and management of prudential standards and laws affecting the Credit Union.

The Credit Union recognises that failure to maintain a no appetite position for Regulatory Risk may result in outcomes which may create systemic risk and catastrophic outcomes.

### **5. People and Culture Risk**

The Credit Union's key people and culture risks include:

- (i) The Credit Union has a no appetite position for Organisational Behaviour Risk. The Credit Union has a code of conduct and a set of organisational values which are measured annually by staff and members. The Credit Union reviews these as part of staff development reviews.
- (ii) The Credit Union has low appetite for Competency Risk. The Credit Union provides a training matrix based on the key competencies and risk in each position. The Credit Union's expectation is that all staff will become competent in their responsibilities and duties of their position.
- (iii) The Credit Union has a low appetite for insufficient Risk Knowledge of staff in relation to their position. The Credit Union ensures all Job Descriptions include the key risks of each position and reviews these as part of staff development reviews.
- (iv) The Credit Union has a very low appetite for Work Health and Safety Risk. The Credit Union aims to create a safe working environment for all its staff, where people are protected from physical or psychological harm. It does not condone practices or behaviours that lead to staff being harmed while at work.

### **6. Implementation of the Risk Appetite Statement**

All Senior Managers are responsible for the implementation of, and compliance with, this Statement.

#### **6.1 Communication**

The Credit Union's Risk Appetite Statement is published on the Credit Union's intranet and the Credit Union's website.

#### **6.2 Risk Assessments**

A Risk Register (Reference to the Risk Management Strategy) of the business risks it faces in its day-to-day operations and the control framework which is in place to mitigate risks. These Registers take into account risks from within the Credit Union and external sources and are reviewed at least annually. Risk Registers are also updated when there are key changes in policies, structures or functions.

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Risk tolerances are reviewed annually or where there are any material environmental or operational changes. Risk tolerances are reviewed once the Strategic Planning process is complete.

All risk performance is monitored by the Chief Risk Officer, and where performance varies to the tolerance settings these matters are reported to the Risk Committee and action plans to mitigate these risks to acceptable levels.

Senior Managers are delegated responsibility to manage their specific operational risks in a manner which is consistent with this Statement and appropriately escalating any risks outside appetite or agreed tolerance levels. Senior Managers risk appetite settings for each risk in their Risk Registers must also be consistent with this Statement.

### **6.3 Reporting & Monitoring**

This Statement is complemented by a Risk Tolerance Dashboard where all risk tolerances are reported to the Risk Committee and any variations outside of tolerances reported to the Board.

Reporting systems are maintained to provide assurance that the risk appetite is effectively incorporated into management decisions.

Feedback on the implementation of the Credit Union's Risk Appetite Statement is provided through the Risk Committee.

### **7. Review**

This Risk Appetite Statement is reviewed annually, or whenever there is a significant change to the Credit Union's operating environment. This review is coordinated by the Chief Risk Officer. Proposed changes to the Risk Appetite Statement are endorsed by the Risk Committee and approved by the Board.