Standard 4.05 – Financial Risk Management

1. Application

This Guideline applies to all directors, employees and Contractors of NQBP.

2. Policy

Under Policy 4 – Finance, the key objective of NQBP is to be commercially successful in the conduct of its activities. This guideline outlines how NQBP will undertake Financial risk Management.

2.1 Settlement Risk

Definition

Settlement risk refers to the risk of errors in settling financial market transactions. Examples of this include the failure to settle transactions on time, payments to or from the wrong account or the illusion of incorrect transaction details.

Requirement

NQBP will seek to minimise errors in relevant settlement procedures by ensuring that any information supplied to our bank/financial institution regarding drawdowns, investment or payments is correct. In addition, NQBP should ensure that it receives confirmation that settlement has occurred as per instructions.

2.2 Funding Risk

Definition

Funding risk is the probability of loss associated with the impact on a project's cash flow from higher funding costs or lack of availability of funds.

Requirement

Funding risk is managed by forward capital and borrowing estimates being included in the Corporate Plan. Funding is expected to be available from QTC for Board and/or shareholder approved projects. QTC also undertakes an annual credit review of NQBP, with the Board considering any recommendations, which arise.

NQBP's responsibility is to ensure the following:

- Adequate cash forecasting procedures are in place to enable anticipation of future funding requirements;
- A realistic and accurate forecast of funding needs is fed into the Approved Borrowing program submission; and
- NQBP is aware of and adheres to relevant financial institution's notice periods for drawing down funds on a day to day basis.

2.3 Liquidity Risk

Definition

Liquidity risk is the risk that arises from the difficulty of selling an asset in a timely manner to meet cash flow requirements e.g. an investment may sometimes need to be sold quickly but an insufficient secondary market may prevent the liquidation or limit the funds that can be generated from the sale of the asset.

Requirement

A monthly report to the Board is to be provided showing the current cash and investment balance and a rolling 12-month cash flow forecast.
During the preparation of corporate financial forecasts (as part of the regular corporate planning process) an analysis of funding requirements is to be undertaken and where relevant provided to the Board.

2.4 Credit Risk

Definition

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and thus cause the other party to incur a financial loss.

The material credit risks to which NQBP is likely to be exposed are:

- Investment counterparties;
- User and port agreements debtors;
- Construction or maintenance contractors; and
- Operating and maintenance contractors.

2.4.1 Investment Counterparties

Financial investments should only be made with QTC, QIC or Queensland Treasury.

2.4.2 Debtors' Credit Risk

As a general rule NQBP offers 30 day terms or other terms as approved by the CFO.

Requirement

The Board will be advised of material outstanding debts and follow up action on a monthly basis.

2.4.3 Contractors' Credit Risk

Definition

Contractors' credit risk is the loss expectation that results from a contractors default because of bankruptcy or temporary financial difficulty.

Requirement

Credit assessments are required for material contractual counterparties. A broad assessment should take account of both financial and qualitative factors such as the macro economy, the industry in which the business operates and the business' positioning within that industry.

Consideration of counter party's credit risk profile should enable appropriate risk mitigation strategies to be determined and clearly specified in tenders/contracts.

Prior to entering material agreements for user or port agreements, with a value exceeding $500,000 pa, NQBP is to undertake a financial assessment of the contracting entity and where the entity is not of sufficient financial substance, require a bank or parent guarantee.

The Board is to be advised of any evidence of financial or other difficulties of significant contractors as it is known.

2.4.4 Interest Rate Risk

Definition

Interest rate risk is the probability that an unexpected change in interest rates will negatively affect the value of or return on an investment.

Requirement

NQBP in conjunction with QTC will specify an interest rate risk management benchmark around which it will manage its interest rate risk within agreed parameters. This benchmark is based on NQBP's desired equity at risk position given projected asset cash flows and the sensitivity of these to changes in key assumptions.

NQBP's ongoing responsibility is to review the appropriateness of this benchmark every two years or where any significant changes occur either within NQBP or its market which may impact NQBP's desired equity at risk position.

Consideration should be given to:

- Duration of borrowings and resultant competitive neutrality fees;
- Certainty of revenue streams resultant from assets; and
- Periodic price reset mechanisms.

For long term pricing agreements NQBP will seek to adjust revenue for movements in interest rates on at least a five year frequency.

2.4.5 Foreign Exchange and Derivatives

Definition

A derivative is a security whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset.

A foreign exchange derivative is a financial derivative where the underlying asset is a particular currency and/or its exchange rate.

In accordance with the Code of Practice for Government Owned Corporations' Financial Arrangements:

- NQBP is not permitted to take a speculative position in derivatives;
- Derivatives may only be entered into for the purposes of hedging exposures that arise in the normal course of business (interest rate, foreign currency and commodity price risks); and
- The value of any derivative should not exceed the value of the underlying physical exposure being hedged.

Requirement

NQBP continues to seek to have all agreements, tenders and contracts denominated in $A.

Every month the Board is to be advised on any FX exposure or derivative transactions exceeding $100,000 and whether the exposures are hedged or unhedged. Full details of any hedges placed or derivative transactions undertaken since the last Board meeting is also to be advised to the Board each month.

All FX exposures greater than $1M must be hedged unless the Board explicitly determines otherwise. The Board will authorise the hedge strategy for Board approved projects as part of the project approval.

The quarterly performance monitoring report to shareholding departments shall include details of the level of new and outstanding hedge transactions undertaken, including details of any realised or unrealised gains and losses; and NQBP's exposure to individual counterparties.

Written advice is to be provided to NQBP's FX hedge provider outlining NQBP's requirements and seeking professional advice as to the most appropriate mechanism to achieve an effective hedge.

2.4.6 Fraud Risk (Financial)

Definition

Fraud is any activity involving dishonesty or deception that is to the detriment of NQBP, whether or not there is any personal benefit to the person(s) committing the fraud. Fraud risk is to be managed in compliance with Standard X.01 Fraud.

2.4.7 Compliance Risk Management

Compliance risk is the risk that the NQBP fails to comply with this standard. Any breach of any part of this Standard is to be reported to the Chief Financial Officer in the first instance who will inform the Chief Executive Officer and the Board, as appropriate.

3. Financial Risk Management Policy, Procedure, Standard and Legislative Framework

NQBP is a Government Owned Corporation and port authority and is required to comply with its own policies, prescribed applicable legislation and State Government policies and procedures. This procedure should be read in conjunction with:

a. Policy 4 – Finance
b. Finance Standards, Guidelines, and Procedures
c. Policy 2 - Compliance
d. *Corporations Act 2001* (Cth)
e. *Government Owned Corporations Act 1993* (Qld)
f. *Financial Accountability Act 2009* (Qld)
g. Code of Practice for Government Owned Corporations' Financial Arrangements
h. Corporate Governance Guidelines for Government Owned Corporations February 2009.
i. Australian Accounting Standards

4. Procedure Review Date

This procedure should be reviewed by 31 January 2019.

5. Definitions

NQBP: means North Queensland Bulk Ports Corporation Limited ACN 136 880 128.

Contractors: means contractors or consultants engaged by NQBP under a personal services consultancy agreement or other similar arrangements.

NQBP Employee: means employees and Contractors of NQBP but does not include NQBP directors.

NQBP Personnel: means NQBP officers (for example NQBP directors) and NQBP Employees.