



**Collection House Limited**

## **Risk Management Policy**

**Revised Version 2:  
Approved by the Board  
on 25/08/10  
Version 1: Approved by  
the Board on 26/06/08**

## 1. Policy

- 1.1 Collection House Limited (Collection House) has a Risk Management Program that identifies, assesses and manages the internal and external risks that affect our business in accordance with a set of core risk management values.

## 2. Approach

- 2.1 The Collection House Risk Management Program considers the probability of occurrence, and the severity of impact, of a risk in a:
  - 2.1.1 **Holistic approach** – comprehensive analysis of all potential risks to our business;
  - 2.1.2 **Integrated approach** – incorporated into the Company's strategic plan, internal control framework, and within Management reporting systems;
  - 2.1.3 **Explicit approach** – Formal, co-ordinated and documented risk management processes.
- 2.2 The Risk Management Program is designed to ensure that strategic, debt-purchase, market, operational, compliance, equity, insurance, liquidity, brand reputation and business risks are identified, evaluated, effectively and efficiently managed and monitored to enable the achievement of the Company's business objectives.
- 2.3 This approach enables the risks to be balanced against appropriate rewards and reflects our vision and values, objectives and strategies, and procedures and training.
- 2.4 This approach gives the Board assurance that:
  - 2.4.1 Processes are in place to identify risks;
  - 2.4.2 Processes are in place to assess the impact of the risk;
  - 2.4.3 Material and potential risks are being managed and/or mitigated;
  - 2.4.4 Monitoring processes are in place to ensure no significant risks will be overlooked;
  - 2.4.5 Identified risks are prioritised;
  - 2.4.6 Monitoring and review processes are in place to ensure the effectiveness of the Risk Management Program.

## 3. Risk affecting our Business

- 3.1 We distinguish four main types of risk:
  - 3.1.1 **Purchase-debt risk** – the risk of financial loss where purchase-debt fails to meet our financial expectations;

- 3.1.2 **Market risk** – the risk to earnings from changes in market factors, such as interest rates and equity prices;
  - 3.1.3 **Operational risk** – the risk that arises from inadequate or failed internal processes, systems and people or from external events; and
  - 3.1.4 **Compliance risk** – the risk of failing to comply with our obligations under the law, based on the letter and spirit of a range of regulatory standards expected of us, and the risk of failure to meet our ethical standards.
- 3.2 In addition to and linked to these four main types of risk, we allocate resources to manage the following types of risks:
- 3.2.1 **Equity risk** – the potential for financial loss arising from movements in the value of purchase-debt portfolio;
  - 3.2.2 **Insurance risk** – the risk of not being adequately insured to mitigate risk or to meet insurance claims;
  - 3.2.3 **Liquidity risk** – the risk of failing to adequately fund cash requirements in the short term;
  - 3.2.4 **Reputation risk** – the risk of negative experiences and perceptions impacting our standing with stakeholders; and
  - 3.2.5 **Business risk** – the risk associated with the vulnerability of a line of business to changes in the business environment.

## 4. Structure

- 4.1 Our business model recognises that the responsibility for managing risks inherent in our business lies with the business units. This responsibility includes developing business unit-specific policies, controls, procedures and monitoring and reporting capability, and is aligned with the Risk Management Framework approved by the Audit and Risk Management Committee.
- 4.2 The Managing Director and Chief Executive Officer and the Executive Management team are instructed and empowered by the Board, via the Audit and Risk Management Committee, to implement risk management strategies in co-operation with it. The Executive Management team report to the Board via the Audit and Risk Management Committee on developments related to risk, and suggest to the Board new and revised strategies for mitigating and resolving risk.
- 4.3 The role of the Internal Auditor was created to:
  - 4.3.1 Oversee and support risk management efforts from a Company perspective;
  - 4.3.2 Ensure that these efforts were in accordance with the direction provided by the Board and Executive Management; and
  - 4.3.3 Ensure the adequacy of the risk management information framework throughout the Company.

- 4.4 Internal audit carries out regular systematic monitoring of control activities and reports to both the relevant business unit management and the Audit and Risk Management Committee. Typically, the audit methodology includes performing risk assessments of the areas under review; performing audit tests, including selecting and testing audit samples; reviewing progress made on previously reported audit findings and discussing internal control or compliance issues with line management and agreeing on actions to be taken.
- 4.5 An Information Technology Strategy and Development Committee was established to support management on technology risk matters across all operational areas in Australia and New Zealand with the focus including technology risk reviews and policy development.
- 4.6 Half-yearly, the CEO and CFO certify to the Board that the Company's financial reports were complete and presented a true and fair view, in all material respects, of the financial conditions and operational results of the Company and the controlled entities at that date and were in accordance with relevant accounting standards.
- 4.7 Also, the Board receives half-year and full-year declarations from executive management that the Company's risk management and internal compliance and control systems were at that date, operating efficiently and effectively in all material respects.
- 4.8 Our Risk Management Structure is as follows:

<b>Board</b>	Considers and approves our risk/reward appetite and strategy. <ul style="list-style-type: none"> <li>Board skills, succession, planning and governance.</li> </ul>	
<b>Board Committees</b>	<b>Audit and Risk Management Committee</b> <ul style="list-style-type: none"> <li>Risk profile and risk management.</li> <li>Integrity of financial statements and systems.</li> <li>Reputational risks arising from Collection House's actions.</li> </ul>	<b>Remuneration Committee</b> <ul style="list-style-type: none"> <li>Responsible reward practices in line with performance.</li> </ul>
<b>Independent Internal Review</b>	<b>Internal Auditor</b> <ul style="list-style-type: none"> <li>Adequacy and effectiveness of management controls for risk.</li> </ul>	
<b>Executive</b>	<b>Executive Management</b> <ul style="list-style-type: none"> <li>Sets and leads our risk optimisation agenda.</li> <li>Recommends to the Audit and Risk Management Committee the appropriate risk-reward positioning and integrates decisions on overall capital levels and earnings profile.</li> <li>Initiates and oversees strategies of the CLH Group's risk profile and boundaries for risk/reward appetite within parameters set by the Board.</li> <li>Oversees the risk management framework, including the performance and role of the executive risk committees.</li> </ul>	

<b>Company</b>	<b>Purchase-Debt Risk</b> <ul style="list-style-type: none"> <li>• Optimises purchase-debt risk/reward.</li> <li>• Oversees purchase-debt portfolio performance.</li> <li>• Determines limits and authority levels within Board approved parameters.</li> </ul>	<b>Market Risk</b> <ul style="list-style-type: none"> <li>• Optimises market risk/reward.</li> <li>• Oversees the purchase-debt portfolio and the affect of interest rate changes.</li> </ul>	<b>Operational and Compliance Risk</b> <ul style="list-style-type: none"> <li>• Optimises operational risk/reward and compliance.</li> <li>• Oversees the governance of operational risk and compliance, including the framework and policies.</li> <li>• Oversees the operational and reputation risk profile.</li> </ul>
	<ul style="list-style-type: none"> <li>• Drives Company-wide risk management culture, frameworks and decision making.</li> <li>• Ensures risk management is a competitive advantage, delivering better solutions for the Company, protects and grows earnings, and builds shareholder value.</li> <li>• Drives Company-wide shared vision for risk management responsibility.</li> </ul>		
<b>Business Units</b>	<ul style="list-style-type: none"> <li>• Manage risks inherent in the business including the development of business specific policies, controls, procedures and reporting in respect of the risk classes.</li> </ul>		

4.9 Collection House recognises that no system of risk management can provide total assurance that the risks that the Company faces will be fully diminished. The Company's approach to risk management seeks to meet the Company's specific needs and minimise the risks to which it is exposed.

## 5. CEO and CFO Assurance

5.1 Pursuant to section 295A of the Corporations Act 2001, the Chief Executive Officer and Chief Financial Officer certify to the Board of Directors that, in all material respects:

5.1.1 The financial records of the Company for the financial year have been properly maintained in that, they:

5.1.1.1 were complete; and

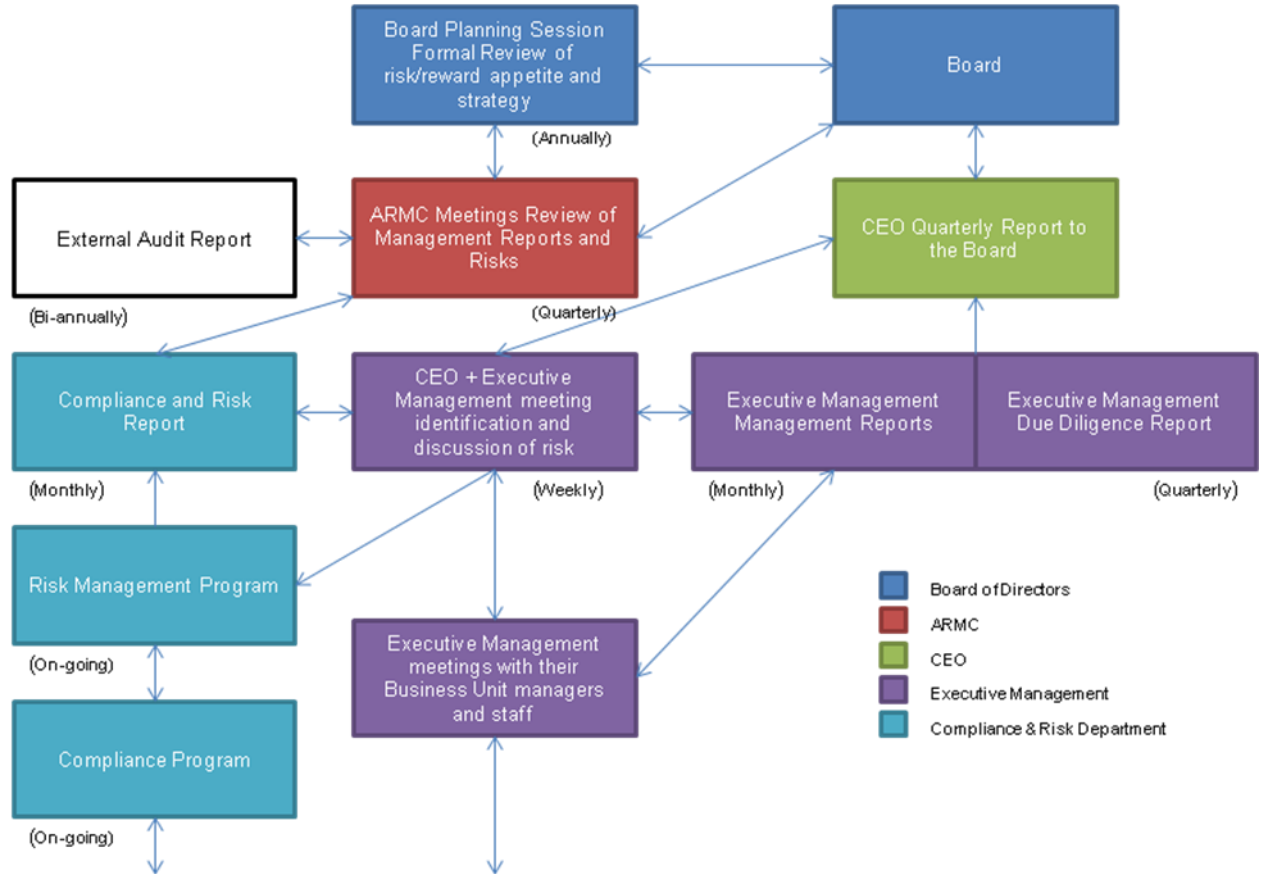
5.1.1.2 presented a true and fair view,

of the financial conditions and operational results of the Company and the controlled entities at that date and were in accordance with relevant accounting standards.

5.1.2 The risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively; and

5.1.3 The statement is founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the Board of Directors.

**Risk Management Process**



Operations					
Training			Processes		
Induction	D.O.T.S	On-the-job training	Support	Collections	Technologies
(at commencement)	(scheduled)	(on-going)			

**6. Reference**

- 6.1 Code of Conduct for Directors and Senior Executives.
- 6.2 Collection House Code of Conduct.
- 6.3 Risk Management Framework.

**7. Review**

- 7.1 June 2010.