

RESIMAC GROUP LTD

# Risk management policy

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## Introduction

Risk Management is the culture, processes and structure that are directed towards the effective management of potential opportunities and adverse effects. It is a tool that should assist in systematically identifying, measuring and controlling risk, which enables the achievement of company goals.

Resimac is accountable to its shareholders for management of company assets and maximisation of shareholders value. This risk management policy provides the framework to manage risks associated with all activities of the mortgage origination and management business. It is designed to identify, assess, monitor and manage risks with the objective of minimising losses and maximizing shareholder value.

## Overview

Resimac is committed to ensuring the adequacy of its risk management systems and that risks and opportunities are adequately and appropriately addressed in a timely manner.

Resimac recognises that risk management is a fundamental driver of effective corporate governance and views it as continuous process. As such, risk management assessment is fully integrated into Resimac's strategic planning processes. This policy is intended to document the risk management policies and procedures that have been adopted by the company.

## Implementation and review

The Board of Directors oversees the establishment and implementation of the risk management framework and monitors the effectiveness of the risk management policy. Management is responsible to ensure that the risk management policy is understood, implemented, and maintained at all levels of the company.

## Procedure

Resimac's risk management program has been developed in accordance with the Australian Standard on Risk Management (AS/NZS ISO31000:2009). The objective of the risk management program is to reduce risk and capture opportunities.

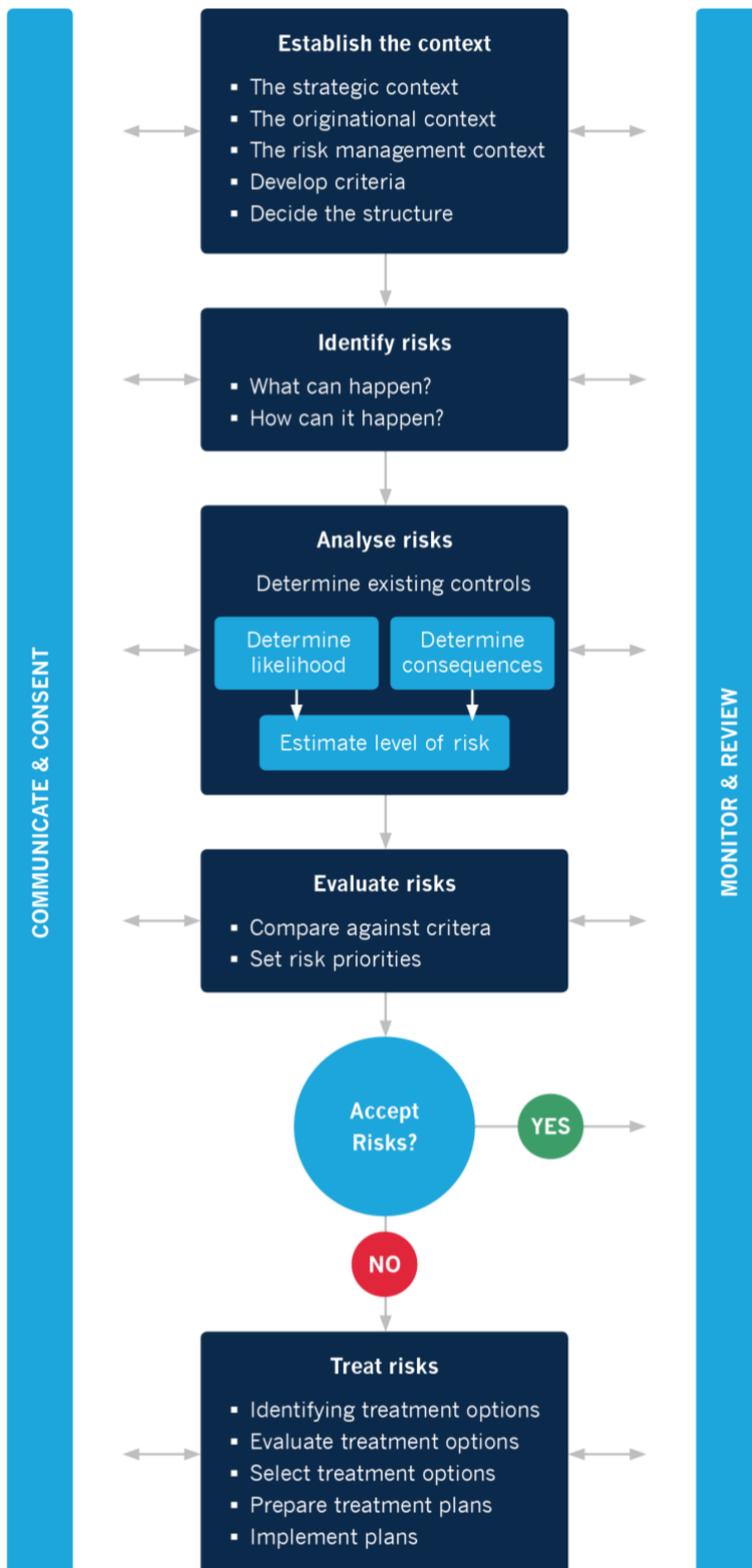
### Risk management overview

The main elements of the risk management process, as shown in Diagram 1, are as follows:

1. **Establish the context:** Establish the strategic, organisational and risk management context in which the risk management process will take place. Criteria against which risks will be evaluated should be established and the structure of the analysis defined.
2. **Identify risks:** Identify what, why and how risks can arise as the basis for further analysis.
3. **Analyse risks:** Determine the existing criteria and analyse risks in terms of consequence and likelihood in the context of those criteria. The analysis should consider the range of potential consequences and likelihood of those consequences to occur. Consequence and likelihood are then combined to produce a "risk matrix".
4. **Evaluate risks:** Compare estimated levels of risk against the criteria set. This enables risks to be ranked so as to identify management priorities. If the level of risk established are low, then risks may fall into an acceptable category and treatment may not be required.
5. **Monitor and review:** Monitor and review the performance of the risk management system.

6. **Communicate and consult:** Communicate and consult with internal and external stakeholders as appropriate at each stage of the risk management process.

Diagram 1 – Risk management process



## Risk management process

### Establish the context

1. **Establish the context:** It is important to define the relationship between the company and its operating environment, identifying company's strengths, weaknesses, opportunities and threats. The context includes the financial, operational, competitive, political, social, cultural and legal aspects of company's activities. Strategic analysis, endorsed at the executive level, set the basic parameters and provides guidance for more detailed risk management process.
2. **Establish the organisational context:** It is necessary to understand the company and its capabilities, as well as goals and objectives and strategies before risk management analysis is commenced.
3. **Establish the risk management context:** The goals, objectives, strategies, scope and parameters of the activity, or part of the organisation to which the risk management process is being applied should be established. The process should be undertaken with full consideration of the need to balance costs, benefits and opportunities. The resources required and the records to be maintained should be specified.
4. **Develop risk evaluation criteria:** Decide the criteria against which risks are to be evaluated. Decisions concerning risks acceptability and risk treatment may be based on operational, technical, financial, legal, social, humanitarian or other criteria. The risk evaluation criteria may be affected by internal and external perceptions and legal requirements.
5. **Define the structure:** Separate the activity into a set of elements, which provide a framework for identification and analysis ensuring that significant risks are not overlooked. The structure chosen depends on the nature of risks and scope of the activity or project.

### Identify risks

The objective of this exercise is to generate a comprehensive list of events, which might affect each element of the structure referred to above. These risks are then considered in more detail to identify their potential impact to the company.

Each of the key elements must be systematically examined to identify what the risks are and how they may occur. Techniques of identifying risk that may be used to identify risks include:

- Scenario analysis;
- Brain storming;
- Checklists;
- Process flow chart; and
- Examining similar or previous experience and record.

All the risks identified must be documented in the company's Risk Register.

### Risk analysis

The objective of the risk analysis is to separate minor acceptable risks from major risks, and to provide information to assist in the evaluation and treatment of risks. The risk analysis process should determine:

- The consequences if the risks occur; and
- The likelihood of the risk occurring.

The significance of the risks is expressed as a combination of its consequence or impact on the objectives of the activity to which it relates and the likelihood of those consequences occurring.

The likelihood criteria are expressed as a probability of the annual occurrence on a descriptive scale from Rare to Almost Certain.

Consequences are rated in terms of the potential impact on the relevant activity's key criteria (for example: cost, timing, performance and environment) and are described on a scale from Insignificant to Catastrophic.

Consequences and likelihood are then combined to produce a level of risk or "risk matrix" (as shown below):

Likelihood	Significant	Minor	Moderate	Major	Catastrophic
Almost certain	High	High	Extreme	Extreme	Extreme
Likely	Medium	High	High	Extreme	Extreme
Possible	Low	Medium	High	High	Extreme
Unlikely	Low	Low	Medium	High	High
Rare	Low	Low	Medium	Medium	High

### Risk evaluation

Risk evaluation involves a decision as to whether a particular risk is acceptable or not, taking into account:

- Existing criteria;
- The cost consequences of managing the relevant risk or leaving it untreated;
- Benefits and opportunities presented by the risks; and
- The risks borne by other stakeholders.

The outcome of this process is a list of risks with agreed priority ratings from which decisions can be made about acceptable levels of tolerance for particular risks and where greatest effort should be focused.

If the risks fall into the low or acceptable risks categories they may be accepted without any further treatment, however, such risk should still be monitored to ensure they remain acceptable.

Risks that do not fall into the low or acceptable risk category should be treated using the process outlined below.

### Risk treatment

The purpose of risk treatment is to determine what measures will be taken and who will be responsible for the risks that have been identified. Risk treatment converts the earlier analysis into actions to reduce risk.

Risk treatment options are evaluated in terms of feasibility, costs and benefits with the objective of choosing the most appropriate and practical way of reducing risk to a tolerable level. Risk management plans will manage different risks in different ways. They may seek to:

- Avoid or control the likelihood of occurrence;
- Reduce the consequences;
- Transfer the risk; and
- Retain the risk.

Risk management plans should identify responsibilities, timing, the expected outcome of treatments, budgeting, performance measures and the review process to be set in place.

### Monitoring and review

Continuous monitoring and review of risks ensures that new risks are detected and managed, risk management plans are implemented and managers and stakeholders are kept informed. The availability of

regular information on risks can assist in identifying trends, likely trouble spots or other changes that have arisen.

The Risk Register is the main management tool for monitoring risk. It contains a ranked list of all risks identified, references to associated risk management plans and the name of individuals responsible for each risk. Regular updating of the Risk Register should be part of the ongoing risk management process. At a minimum, the Risk Register should be reviewed annually which will ensure that new risks are identified and managed and that risks that are no longer relevant are removed.

### Communication and consultation

Communication and consultation involve an active dialogue between stakeholders at each step of the risk management process.

Since stakeholders can have a significant impact on the decisions made, it is important that their perceptions of risk, as well as their perceptions of benefits, be identified and documented and the underlying reasons for them understood and addressed.