

McMillan Shakespeare Group of Companies

Risk Management Policy and Framework Statement

Background

McMillan Shakespeare Limited (MMS) has a responsibility to appropriately manage the risks MMS faces in its business. Effective risk management is required in order to achieve its business objectives. This is not only for the sake of its customers, shareholders, and employees, but also to meet its responsibilities as the holder of a Financial Services and Credit Licence and as a company listed on the Australian Securities Exchange.

Responsibilities of the Board

This risk management policy and framework has been approved by the Board of MMS, and applies to all entities within the MMS Group including its subsidiaries and the UK Joint Venture (the “Group”). The Board of MMS is responsible for establishing the risk appetite for MMS, and approving its risk management policy and framework. Given the nature and size of the Group’s operations the Board has established the Audit, Risk and Compliance Committee (ARCC) to oversee risk management. Risk management remains a direct responsibility of the full Board.

Audit, Risk and Compliance Committee (ARCC)

The ARCC reviews and assesses the ongoing activities of the Group and the effectiveness of its risk management framework, policy and procedures on an ongoing basis, and provides a formal report to the Board at least twice a year. It is assisted in these activities by reports from the Risk and Compliance Committees.

Membership

The ARCC solely consists of non-executive Directors with a majority being independent directors and will be chaired by an independent non-executive Director who is not the Chairperson of the Board. The ARCC usually meets four times a year. The remaining non-executive and executive Directors normally attend the meeting of the Committee as observers.

MMS Risk and Compliance Committee (RCC)

The MMS Risk and Compliance Committee is a management committee that has responsibility for actively managing the risks facing MMSG, including reviewing on a monthly basis (except January of each year) the key risks and any relevant mitigation measures.

In relation to financial reports, the Board receives a written statement, signed by the Chief Executive Officer and the Chief Financial Officer, confirming that the Group’s financial reports give a true and fair view, in all material respects, of the Group’s financial position and comply in all material respects with relevant accounting standards. This statement also confirms that the Group’s financial reports are founded on a sound system of risk management and internal controls and that the system is operating effectively in relation to financial reporting risks.

Membership

The Risk and Compliance Committee includes membership from the Chief Executive Officer, the Chief Financial Officer and Executives for all departments and is chaired by the General Counsel. The Chief Executive Officer and Chief Financial Officer report to the ARCC on the activities of the Risk and Compliance Committee as required, and otherwise four times a year (except January).

Retail Risk and Compliance Committee (RRCC)

The RRCC is a management committee that has responsibility for actively managing the risks in the Retail Finance Services (RFS) including reviewing on a monthly basis (except January of each year) the key risks and any relevant mitigation measures.

Membership

The RRCC is chaired by the MMSG COO and has membership from the RFS Group Executive, senior RFS management and risk and compliance staff. The RRCC reports monthly to the Board of each subsidiary in the RFS segment (except January).

Management of Specific Risk areas

MMSG considers that particular risks may require more detailed and close management, in particular, Credit Risk, Treasury Risk and Residual Value Risk. As a result, separate policies have been approved for the management of Credit Risk, Treasury Risk, and Residual Value Risk. Under each of these policies, the relevant risk has been defined, responsibility for managing the risk has been allocated appropriate committees and reporting structures have been adopted to appropriately manage these specific risks.

The successful management of IT projects and the associated resource allocation is essential to the operational performance and competitive position of the Group. The IT Project Governance Committee has been established to provide oversight of and guidance to the Group's Project Management Office which is charged with the day to day management of these issues.

Responsibilities of Executive and Management of MMS

Each Executive and Manager is responsible for managing risks within their area of responsibility, including identification of risks, implementation of appropriate management measures including mitigation plans and processes where appropriate, and reporting and escalating any matters to the ARCC via the MMS or Retail Risk and Compliance Committee, Credit Committee, Interest Committee, Residual Value Committee or the IT Project Governance Committee, as the case may be.

Risk Management Procedures

MMSG bases its risk management procedures on the Risk Management Standard AS/NZS ISO 31000:2009. As part of their normal business activities, the Executive Managers of each department are required to formally identify and/or review key risks they face, at least quarterly. The results of these reviews are recorded in the MMSG Risks Register, which is used by the MMS and Retail Risk and Compliance Committees to actively monitor risks. The Risks Register includes the category of risk, risk identification, risk assessment, mitigation plan, and an Executive owner(s) of the risk.

MMSG relies on the Three Lines of Defense model in identifying, managing and controlling risks–

1. management control – functions (operational managers) that own and manage risks are responsible for identifying risks and implementing suitable controls to address the risks;
2. risk management and compliance oversight –
 - a. the Retail Risk and Compliance Committee oversees the risk management process for the Retail Finance Services (RFS).
 - b. the MMS Risk and Compliance Committee oversees the risk management process at a Group level.

3. independent assurance (internal audit performed by both the in-house audit team and an independent third party audit firm).

Risks Managed by MMS

MMS' activities give rise to a range of risks, like many other businesses. The key risks being managed by MMS include financial risk, strategic risk, operational risk, safety and security risks, technology risks, legal and compliance risks and fraud and corruption risks.



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