## Risk Management Governance in ANZ

### Risk Management

ANZ's Board has ultimate responsibility for risk management. In discharging its responsibilities for overall risk management and control, the Board has established three key committees. The committees and their purpose are:

- **The Risk Committee** – to assist the Board of Directors in the effective discharge of its responsibilities for business, market, credit, equity and other investment, financial, operational, liquidity and reputational risk management and for the management of the Group's compliance objectives. The committee meets at least four times annually.
- **The Audit Committee** – to assist the Board of Directors in reviewing: financial reporting principles and policies, controls and procedures; the effectiveness of ANZ's internal control and risk management framework; the work of Global Internal Audit; the integrity of ANZ's financial statements and compliance with legal and regulatory requirements; due diligence procedures; and prudential supervision procedures required by regulatory bodies. The committee meets at least four times annually.
- **The Governance Committee** – amongst other things, the committee reviews the development of and approves all other corporate governance policies and principles applicable to ANZ; and ensures an appropriate Board and committee structure is in place. The committee meets at least twice annually.

The above committees are exclusively comprised of non executive directors. Members, including the chairperson are appointed by the Board and serve at the discretion of the Board and for such term or terms as the Board determines.

Executive management committees are responsible for co-ordination of risk matters for each of the areas of risk management. These executive management committees and their main functions are:

- The Group Asset and Liability Committee (GALCO) – is responsible for the oversight and strategic management of the Group's balance sheet, liquidity and funding positions and capital management activities. The committee meets at least six times annually.
- The Credit and Market Risk Committee (CMRC) – is a senior executive management committee responsible for the oversight and control of credit and market risk. The committee meets as required.
- The Operational Risk Executive Committee (OREC) - is the primary senior executive management committee responsible for oversight of the operational risk and compliance risk expected and unexpected risk profile and the related Control Environment. The Committee currently meets a minimum of four times annually.
- The Reputation Risk Committee (RRC) – is responsible for assisting ANZ businesses, Risk, Corporate Affairs and Legal in partnership to effectively manage reputation risk in relation to environmental, social, business and regulatory issues across ANZ. The committee meets a minimum of four times annually.

### Key Risk Categories

ANZ's risk management is viewed as a core competency and to ensure that risks are identified, assessed and managed in an accurate and timely manner, ANZ has:

- An independent risk management function, with both central and enterprise-wide functions (which typically cover such activities as risk measurement, reporting and portfolio management), together with embedded risk managers within the businesses; and
- Developed frameworks to provide structured and disciplined processes for managing key risks. These frameworks include articulation of the appetite for these risks, portfolio direction, policies, structures, limits and discretions.

ANZ is exposed to a broad range of interrelated risks. These risks are broadly managed as follows:

**Market Risk** - is defined as the risk to earnings arising from changes in market risk factors, which ANZ may have an exposure to in the Banking Book and/or Trading Book. The key market risk factors can be summarised as follows:

- Interest rate risk: exposure to changes in the level and volatility of interest rates, slope of the yield curve and changes in credit spreads.
- Currency rate risk: exposure to changes in foreign exchange spot and forward prices and the volatility of foreign exchange rates.
- Commodity price risk: exposure to changes in commodity prices and the volatility of commodity prices.
- Equity price risk: exposure to changes in equity prices and the volatility of equity prices.

The Markets Risk function is a specialist risk management unit independent of the business that is responsible for measuring and monitoring market risk. Markets Risk have implemented policies and procedures to ensure that ANZ's market risk exposures are managed within the appetite and limit framework set by the Board.

**Credit Risk** - is the risk of financial loss resulting from the failure of ANZ's customers and counterparties to honour or perform fully the terms of a loan or contract. ANZ has a comprehensive framework to manage credit risk and support sound growth for appropriate returns. The framework is top down, being defined by credit principles and policies. The effectiveness of the credit risk management framework is assessed through various compliance and monitoring processes. These, together with portfolio selection, define and guide the credit process, organisation and staff.

**Operational Risk** - within ANZ, operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, and the risk of reputation loss, or damage arising from inadequate or failed internal processes, people and systems, but excludes strategic risk. The Group Operational Risk function is responsible for exercising governance over operational risk by ensuring the business management usage of the operational risk measurement and management framework. They are also responsible for ensuring that key operational risks and their management are reported to executive risk committees. Key operational risk themes include business disruption, rogue trader and mis-selling. Business units are responsible for the day to day management of operational risks through the implementation of the Operational Risk Measurement and Management framework. This includes the identification, analysis, assessment, monitoring, treatment and escalation of operational risks.

**Compliance Risk** – within ANZ, compliance risk is defined as the probability and impact of an event that results in a failure to act in accordance with laws, regulations, industry standards and codes, internal policies, and procedures and principles of good governance as applicable to ANZ's businesses. Group Compliance is accountable for designing a compliance program that allows ANZ to meet its regulatory obligations. It also provides assurance to the Board that material risks are identified, assessed and managed by the business.

**Reputational Risk** – within ANZ, reputation risk is defined as the risk of loss caused by adverse perceptions of ANZ held by the public, shareholders, investors, regulators, or rating agencies that directly or indirectly impact earnings, capital adequacy or value. We have established decision-making frameworks and policies to ensure our business decisions are guided by sound social and environmental standards and take into account reputation risk.

**Insurance Risk –** within ANZ, insurance risk is defined as the risk of loss due to unexpected changes in current and future insurance claim rates. In life insurance business, insurance risk arises primarily through mortality (death) and morbidity (illness and injury) and longevity risks. For general insurance business, insurance risk arises mainly through weather-related incidents and similar calamities, as well as adverse variability in home, contents, motor, travel and other insurance claim amounts. Insurance risk is managed primarily by: product design to price all applicable risks into contracts; reinsurance to reduce liability for large individual risks; underwriting to price/reserve for the level of risk associated with an individual contract; claims management to admit and pay only genuine claims; insurance experience reviews to update assumptions and portfolio management to maintain a diversity of individual risks.

**Reinsurance Risk -** Reinsurance is an agreement in which one insurer ('the reinsurer') indemnifies another insurer for all or part of the risk of a policy originally issued and assumed by that other insurer. Reinsurance is a risk transfer tool between the insurer and reinsurer. The main risk that arises with reinsurance is counterparty credit risk. This is the risk that a reinsurer fails to meet their contractual obligations, i.e. to pay reinsurance claims when due. This risk is measured by assigning a counterparty credit rating or probability of default. Reinsurance counterparty credit risk is mitigated by restricting counterparty exposures on the basis of financial strength and concentration.

**Strategic Risk –** is defined to be the potential for loss arising from a failure in ANZ's strategies. These include strategies designed to address or anticipate changes in the competitive, client, political or regulatory environments.

**Business Risk** - the risk of financial loss due to unexpected movements in volume, profit margin, and operating expenses (excluding risks elsewhere defined) arising from unexpected changes in the business environment, customer preferences and/ or competitor actions.

**Liquidity Risk -** within ANZ, liquidity risk is defined as the risk that the Group is unable to meet its payment obligations as they fall due, including repaying depositors or maturing wholesale debt, or that the Group has insufficient capacity to fund increases in assets. The timing mismatch of cash flows and the related liquidity risk is inherent in all banking operations and is closely monitored by the Group. The Group maintains a portfolio of liquid assets to manage potential stresses in funding sources. The minimum level of liquidity portfolio assets to hold is based on a range of ANZ specific and general market liquidity stress scenarios such that potential cash flow obligations can be met over the short to medium term.

**Equity Risk** – is the potential loss that may be incurred on equity investments in the banking book.

**Securitisation Risk** – the risk of credit related losses greater than expected due to a securitisation failing to operate as anticipated, or of the values and risks accepted or transferred, not emerging as expected.

Other key risks faced by ANZ, include:

- Risks specific to the Wealth business including Insurance Risk, value of in force risk and business retention risk.
- Other risks as outlined in the ICAAP policy framework.

**Risk Appetite**

ANZ's risk appetite is set by the Board and integrated within ANZ's strategic objectives. The Risk Appetite Framework underpins fundamental principles of strong capitalisation, robust balance sheet and sound earnings, which protects ANZ's franchise and supports the development of an enterprise-wide risk culture. The Framework provides an enforceable risk statement on the amount of risk ANZ is willing to accept. It supports strategic and core business activities and customer relationships ensuring that:

- only permitted activities are engaged in;
- the scale of permitted activities, and subsequent risk profile, does not lead to potential losses or earnings volatility that exceeds ANZ approved risk appetite;
- risk is expressed quantitatively via limits and tolerances;
- management focus is brought to bear on key and emerging risk issues and mitigating actions; and
- risk is linked to the business by informing, guiding and empowering the business in executing strategy.