

# Enterprise Risk Management Policy



March 2019

## What you need to know

- This Policy articulates how AMP's risk management principles are delivered and managed to ensure effective risk management

Overview	AMP has applied five principles to assist with effective risk management in relation to governance structures, risk strategy and appetite, people and culture, management information system and the overarching risk management process. This Policy articulates how the five principles are delivered and managed to ensure effective risk management.
Objective	The Enterprise Risk Management (ERM) framework governs the management of risk across the Group and covers: the roles and responsibilities for risk governance; the link between risk appetite and strategy; the risk process; and the systems and culture that support risk management at AMP. The ERM Policy outlines the risk management principles at AMP, with the intention to deliver sustainable growth, protect our business and our customers', shareholders' and employees' interests, and meet our legal and regulatory obligations.
Scope	All AMP staff including Directors, officers, employees, temporary agency staff and contractors
Policy Owner	Chief Risk Officer (CRO) - Strategy, Governance and Group Functions
Policy Approver	Group Chief Risk Officer
Effective Date	18 March 2019
Review Date	18 March 2021

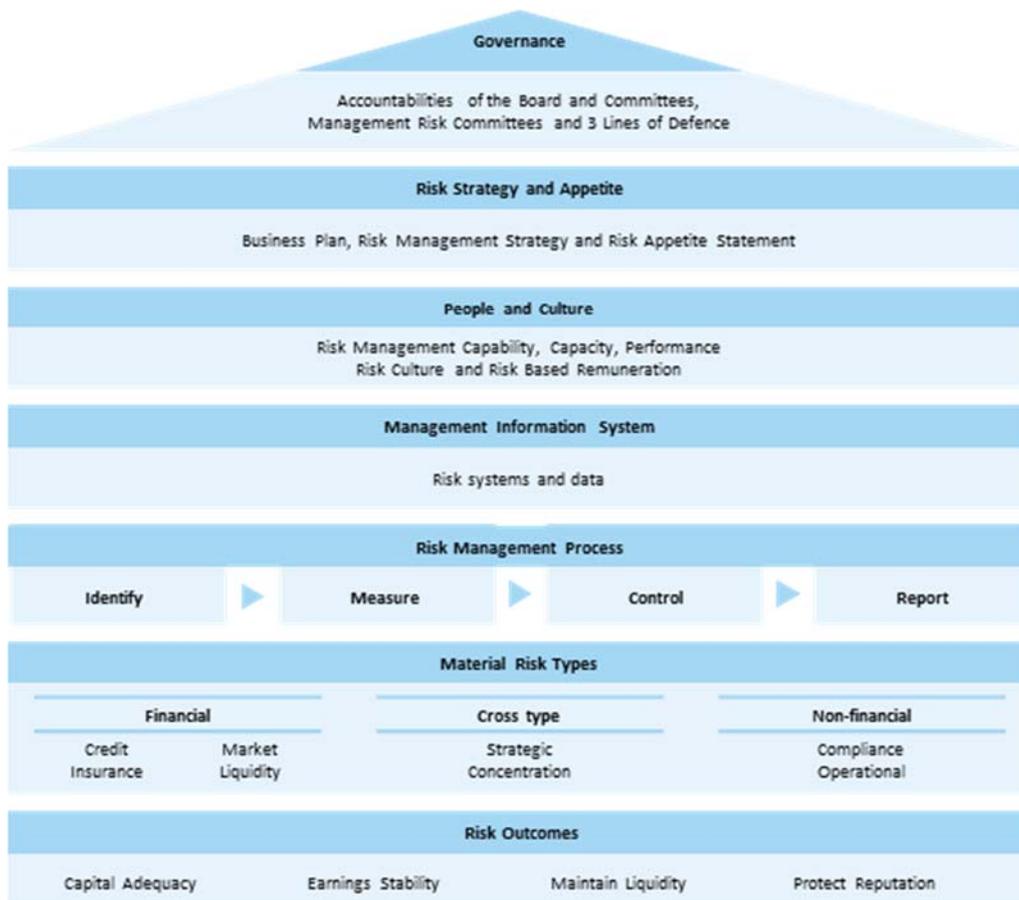
## 1. ERM Policy Principles

AMP maintains an ERM framework that enables AMP to demonstrate it meets applicable legislative and regulatory requirements, rules, codes and ethical standards, as well as internal policies and procedures. AMP applies the following Enterprise Risk Management (ERM) principles to assist in effective risk management and which form the basis of the ERM Framework:

- Governance - AMP operates and manages risk within an appropriate governance structure, and has adopted a 3 Lines of Defence.
- Risk Strategy and Appetite - AMP’s strategy is aligned to the Board’s risk appetite to ensure the nature and amount of risk taken to achieve the strategy are within risk appetite. AMP will take informed risks within risk appetite to create sustainable value.
- People and Culture - AMP promotes a culture of risk awareness, risk management and appropriate risk-reward decision making in all aspects of its products, practices and processes.
- Management Information System – AMP has systems to manage risk information that facilitate risk measurement and support the governance and management of risks
- Risk Management Process - AMP maintains an ERM framework that enables risks to be identified, measured, controlled and reported in a structured and consistent manner across the business

## 2. ERM Policy Requirements

This section provides details of the minimum standards that must be followed to comply with the Enterprise Risk Management Principles.



### Governance

The AMP Limited Board is responsible for the ERM framework and oversight of its operation by AMP’s management. In particular, the board is responsible for:

- setting AMP’s risk appetite, the strategic plan and risk management strategy
- monitoring policies and business practices to align achievement of strategic objectives with AMP’s risk appetite and with applicable laws and regulations
- reviewing the ERM framework at least annually to satisfy itself that it continues to be sound.

The board’s oversight, review and monitoring of the effectiveness of risk management at AMP are supported by board committees and management committees. The Board Risk Committee oversees the implementation and operation of AMP’s ERM framework and monitors the risk culture within AMP. The Board Audit Committee assists by providing an objective non-executive review of the effectiveness of the ERM framework.

AMP also has management committees to assist in overseeing risk management. The Group Risk and Compliance Committee guides the implementation of risk management practices, processes and systems, and oversees all material risk exposures and risk decisions facing AMP. The Group Asset and Liability Committee oversees financial risks across AMP in relation to capital and financing, and the risk appetite as it relates to financial risk and shareholder capital.

To support the execution of the risk management process, AMP has utilises a 3 Lines of defence model:

Line 1 – management is responsible for identifying, measuring, controlling (or appropriately treating) material risks in the business. Business unit teams are responsible for decision-making and the execution of day-to-day business, while managing risk and the resulting impacts to capital adequacy, earnings stability, maintaining liquidity and protecting reputation in line with the board’s risk appetite and strategy.

Line 2 – the Enterprise Risk Management team, led by the Group CRO, is responsible for designing, implementing and monitoring the practices and processes for identifying, measuring, controlling (or appropriately treating) material risks, and providing advice and oversight on material business decisions. The team also provides objective advice and challenge to the first line’s decisions and oversees the alignment of the risk profile with the board’s expectations.

Line 3 – the Internal Audit team provides independent and objective assurance to the board on the operational effectiveness of risk management across the business and the effectiveness of our control processes.

### **Risk Strategy & Appetite**

The AMP Limited Risk Management Strategy (RMS) and Risk Appetite Statement (RAS), must be documented, approved and reviewed by the Board on at least an annual basis. Key operating subsidiaries should also review their respective RMS and RAS where applicable annually to ensure alignment with AMP Limited.

Risks faced by AMP are often interlinked, and if not properly managed, may prevent AMP from achieving its strategic objectives. Risks must be managed effectively within the Board’s Risk Appetite to meet the reasonable expectations of key stakeholders and to safeguard AMP’s capital, profitability, liquidity and reputation.

AMP must consider as soon as practicable whether the resulting risk of management and operational decisions are within risk appetite. AMP must have the ability to demonstrate that the appropriate ERM framework and associated policies, procedures, and controls have been embedded and managed effectively within risk appetite.

Breaches of the RAS must be escalated by the relevant CRO in a timely manner to the Board.

### **People and Culture**

The risk culture framework will support the creation of sustainable value for customers and shareholders while managing risk effectively and focus on embedding risk awareness and risk/reward in decision making.

There should be appropriate skills and staffing throughout the 3 Lines of Defence to manage risk.

All areas of AMP and its employees must conduct all business within the boundaries of the regulatory and legislative environment within which they operate. Procedures must be in place to monitor compliance with obligations and breaches must be managed and reported to the relevant Regulator.

### Management Information System

Systems capture elements of the risk management process and enable a consolidated view of how risks are managed and reported at all levels of the Group. Processes are in place to ensure the information captured in the Risk system is appropriate, accurate and complete. A fit for purpose ERM Framework for AMP includes at least two risk systems:

- A system to measure risk in terms of impact on capital, profitability, liquidity and reputation; and
- A system that supports governance and control of non-financial risks.

The role of data is important for a broad range of business objectives, meeting financial and other obligations to stakeholders, and effective management and proper governance including the evaluation of risk.

### Risk Management Process

AMP’s risk management process articulates how AMP identifies, measures, controls (or appropriately treats) and reports risks. Risk identification is the process of determining which risks could potentially prevent the achievement of AMP’s objectives. Risk assessments are conducted to measure the ‘likelihood’ of the risk occurring and the ‘impact’ it will have on AMP’s business should it occur, taking account of the controls and structures in place to manage risk. Risks are monitored and reported so that any change in AMP’s risk exposures can be identified and controlled (or appropriately treated). Depending on whether the risk is within the risk appetite, actions are taken to either optimise or mitigate the risk. Key requirements of the risk management process:

- AMP must maintain a forward-looking stress and scenario testing program to assess the impact of likely and rare scenarios.
- Proactively identify and assess emerging risks and opportunities
- AMP must actively manage its aggregate risk exposures and intra-group transactions with material exposures escalated and reported to the relevant Committees for assessment and action if required.
- Where AMP relies on models to support critical business decisions, processes must be in place to demonstrate their ongoing accuracy, robustness and stability.
- Significant change must be managed to ensure associated risks are adequately identified and managed.
- The appropriateness of the design and implementation of the ERM framework is subject to periodic internal and external review
- Material risks must be assessed, measured and analysed in line with the Material Risk Types and Risk Outcomes to ensure risks are being managed and aggregated appropriately.
- Identify, document and periodically monitor risk profiles at both a business unit and group level

### Material Risk Types

Risk type	Definition
<b>Compliance Risk</b>	Risks associated with identification, implementation and monitoring of compliance with regulations. This includes regulatory risks which are the risks of new or changing legislation, regulation, policies, voluntary codes of practice and their interpretation in the markets in which we operate.
<b>Concentration risk</b>	The risk of loss in value when an individual or group of exposures move together in an unfavourable direction. It may arise in the form of credit concentration, market correlation, cross risk types, pandemic, which may have been accumulated over time.
<b>Credit risk</b>	The risk of loss or foregone value due to non-payment of a contractually required payment by a counterparty.

Risk type	Definition
<b>Insurance risk</b>	The risk of loss due to increased morbidity/mortality rates, longevity, expense, and changes to policyholder behaviour.
<b>Liquidity risk</b>	The risk of loss due to an inability to fund or trade liquidity risk at a given period to meet debt obligations at a reasonable price.
<b>Market risk</b>	The risk of loss or foregone value due to adverse movements in market prices and investment values. This may be due to economic changes or events that have an impact on large portions of the market.
<b>Operational risk</b>	Risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
<b>Strategic risk</b>	Risk of loss or foregone value associated with strategic decisions and competitive positioning of the business and our ability to respond in a timely manner to changes in the regulatory, customer or competitive landscape.

### Risk Outcomes

Risk Outcome	Description
<b>Capital Adequacy</b>	This reflects AMP's level of protection/buffer against significant losses in tail events that could lead to insolvency/default or emergency balance sheet restitution
<b>Earnings Stability</b>	This constrains excessive volatility of earnings and guards against surprises that lower the predictability of returns to shareholders.
<b>Maintain Liquidity</b>	This reflects AMP's level of protection against a period of prolonged funding stress and ensures the group can meet its cash obligations without having to resort to an asset fire.
<b>Protect Reputation</b>	This reflects the extent to which AMP is willing to accept unexpected failure to meet the expectations of key stakeholders which can be substantial threats to AMP's overall reputation and long-term value.

### 3. Roles and Responsibilities

The roles and responsibilities with regard to the Policy are set out in the table.

Group Chief Risk Officer	<ul style="list-style-type: none"> <li>Review and approve the policy at least biannually</li> <li>Monitor compliance with the policy as required and ensure alignment of the ERM Principles and Requirements with the RAS and RMS</li> <li>Maintain and update the policy as required</li> </ul>
--------------------------	--

### 4. Interactions with related documents

The documents listed below support this Policy.

AMP Ltd Risk Management Strategy (RMS)	The principles in the ERM Policy directly informs the risk management activities noted in the RMS
AMP Ltd Risk Appetite Statement (RAS)	The principles in the ERM Policy directly informs the RAS ecosystem.

### 5. Compliance with this Policy

This Policy sets out the minimum standards required for AMP employees. Additional requirements may apply in some circumstances, for example international employees in overseas jurisdictions. In addition to meeting the minimum requirements of this Policy, AMP employees will also need to comply with local or entity specific requirements, policies, and procedures where they exceed the requirements of this Policy. Where specific requirements are inconsistent with this Policy these should immediately be referred to the Policy owner.

### 6. Terms and Conditions

This Policy does not form part of any contract of employment or contract of engagement and may be amended, replaced or revoked at any time by AMP at its discretion.