



Risk Management Committee

Memorandum

To: Risk Management Committee

From: Mary Manos

Date: 7 November 2018

Subject: Risk Management Policy

Dear Committee Members

Overview

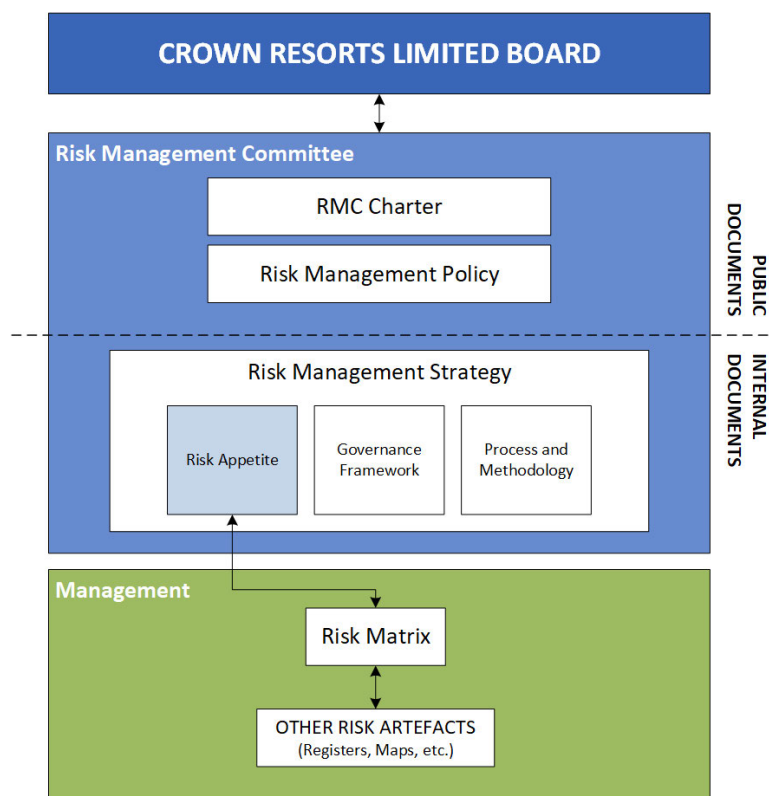
Fundamental to the implementation of an effective risk management framework is the articulation, by the Board, of its Risk Appetite (**Risk Appetite**). This process allows the Board to communicate to management its expectation with regards to the degree of losses that it is willing to absorb in the pursuit of its strategy.

The Risk Appetite, as defined by the Board, will guide management's risk taking activities and communicates the Board's expectations of risk culture by establishing:

- a high level statement of the Board's risk philosophy and the expected risk culture and behaviours of the organisation;
- qualitative statements and quantitative metrics triggering Risk Management Committee (**RMC**) reporting for each material risk category; and
- the requirements for the monitoring and reporting of Crown's risk profile relative to quantitative parameters (**risk tolerances**) against these risk categories.

The Risk Appetite is a key building block to the broader Risk Management Strategy, which will be finalised once the appetite is approved, and presented to the Board for approval at the next meeting of the RMC.

Below is a representation of the different elements of the risk framework:



- The RMC Charter and Risk Management Policy are publicly available documents. They articulate the general principles of the risk management framework, but at a high level. These documents are in place and reviewed annually.
- The Risk Management Strategy (**RMS**) will be a Board approved document, aimed at management (internal document), which provides articulation of the expectations of the Board, in relation to risk management. It includes a definition of its Risk Appetite, as well as articulation of the governance structure (including the three lines of defence operating model), and the overarching risk processes and methodology the Board expects to see implemented throughout the organisation.

Both governance principles and processes and methodologies are already in place operationally, and have been for some time. The development of the RMS will mostly document and formalise those elements, and allow the formal approval by the Board.

- Once the Board elements are in place, they are translated into operational tools and processes that ensure the Risk Appetite is understood and the business operates within those parameters. These include the Risk Matrix and Risk Map.

Once the Risk Appetite is articulated, delegations schedules will also be recalibrated to align to the approved Risk Appetite.

Background

Up until now, an expression of the Board's Appetite has been captured in the tools that the organisation has used to discuss and rate risks. This Risk Appetite was articulated in the **risk matrix**,

and the 'High' risks were presented to the RMC on an ongoing basis. Each of the key reporting entities had its own risk matrix.

As part of the review of the Risk Management Framework, a more overt expression of the Risk Appetite is proposed. This approach considers PWC's recommendations made during the VCGLR's Section 25 Sixth Review of the Casino Operator and Licence report.

As part of our review of the Risk Appetite, the limits, particularly the financial limits, were materially adjusted to align closer to the business practices and provide relevant guidance to the business. Extensive consultation took place with the business to identify those limits that are inherently in place and document them into the attached table.

Going forward, all reporting entities will be using the same risk matrix to achieve consistency.

Risk Categories

In structuring its appetite, Crown has considered the range of consequences that any event could trigger, and it has organised its Risk Appetite against these seven impact categories, which are:

- Financial
- Brand / Reputation
- Regulatory / Legal
- People
- Customers / Patrons
- Infrastructure
- Strategy /Business Sustainability

Risk Appetite Statements and Reporting Tolerances

The following qualitative statements and quantitative metrics define the Board's Risk Appetite and its tolerance for individual risk events. Quantitative metrics trigger reporting requirements to the RMC.

| Category | Qualitative Statement | Quantitative Metrics – RMC Reporting Triggers | |
|---------------------------|--|---|-----------|
| Financial | Protect and deliver shareholder value | Outside normal trading EBITDA losses (per event)/ and or adverse to the current (normalised) forecast | >\$10M |
| | | Large capital, equity or treasury transaction | >\$10M |
| Brand / Reputation | Maintain shareholder confidence | Internal event creating a sustained share price loss | >5% |
| | Retain public confidence in the Crown brand | Sustained negative national or international media coverage | Any event |
| Regulatory/ legal | Maintain systematic compliance with regulatory, legal, statutory and contractual obligations | Significant breaches that may have a financial or reputational impact | Any event |
| | | Material legal action or class action | Any event |

| Category | Qualitative Statement | Quantitative Metrics – RMC Reporting Triggers | |
|---|---|--|--|
| | Build and maintain professional and collaborative relationship with regulators and relevant government bodies | Significant breach or event that has the potential to damage the relationship | Any event |
| | Deliver gaming and alcohol services responsibly | Material RSG issues including adverse media | Any event |
| | | Integrity of liquor licences | Any loss of licence and/or points |
| People | Maintain a safe and healthy workplace | Significant notifiable incidents under the Workplace Health and Safety Act | Any event |
| | Maintain corporate culture and performance | Sustained staff turnover and/or unplanned absences above average | >5% point increase |
| | | Loss or potential loss of key management personnel | Any event |
| | Maintain healthy engagement with Unions | Imminent industrial action | Any event |
| Customers/ Patrons | Ensure our services are available to our target customers | Negative event affecting segment of patrons (ex VIP, F&B, Hotel) | Over 20% or 20,000 patrons of segment type, or \$100M in revenue |
| Infrastructure | Maintain appropriate security and surveillance across the properties | Security incident that threatens people or property | Any event |
| | Maintain high levels of critical IT Infrastructure availability and reliability | Loss of core IT infrastructure or multiple key systems | >24 hrs |
| | Protect customer information | External or internal security breaches resulting in unauthorised access to, or loss of, customer data likely to result in serious harm | Any event |
| | Maintain high quality physical infrastructure to deliver our world class services | Loss of critical physical infrastructure | >24 hrs |
| | Maintain strong Business Continuity and Disaster Recovery capabilities and facilities | Unplanned loss of gaming floor in one property | >10% for up to 24 hrs |
| | | Unplanned loss of non-gaming front of house facilities in one property | > 1 hotel or 50% F&B for over 24hrs |
| Strategy / Business Sustainability | Maintain 24/7 operations | Critical event requiring mobilisation of resources and CMT/EMT activation | Any event |
| | Ensure strategic projects are delivered to provide medium to long term business sustainability and | Key strategic project delayed by 12 months or more | Any event |

| Category | Qualitative Statement | Quantitative Metrics – RMC Reporting Triggers | |
|----------|--|--|-----------|
| | competitiveness | | |
| | Make strategic investment and divestment decision that enhance business value and sustainability | Change in ownership share of related or third party entity | Any event |

Reporting Triggers - Board Reporting Mechanisms

At each meeting of the RMC, a report against this Risk Appetite table will be prepared by the GGM – R&A. It will highlight events against reporting triggers by exception.

In most circumstances, reporting trigger events at the regular RMC meeting will be sufficient, but at times, special meetings of the RMC or other Board forums may be required based on the magnitude of the event, as well as the requirement for a timely Board decision.

The requirement for a special meeting will be decided on a case-by-case basis by consultation between the CEO, CLO, General Counsel and the GGM – R&A, as well as any relevant key management personnel.

Please find attached as Appendix 1 an example of the Quarterly Risk Appetite Dashboard Statement Report that will form part of the RMC papers moving forward.

Operationalisation of the Risk Appetite

Risk Appetite is a high-level and qualitative concept, and needs to be translated into quantifiable and measurable thresholds to allow the business to operate within that articulated level of risk. It also needs to be relevant and understandable for day-to-day activities across the whole organisation.

This translation is facilitated through the **Risk Matrix** (see Appendix 2 for information), which defines likelihood and consequence thresholds. The combination of a likelihood rating with a consequence rating provides a risk rating. This rating can be either inherent or residual.

The Risk Matrix is updated by the Risk Management Function and is approved by the CEO – Australian Resorts and the Executive Chairman.

The residual risk ratings guide the delegated responsibilities for the management and acceptance of risk. The Board's risk appetite is represented as the line between the 'orange' and the 'red' as follows:

| | | | | | | |
|--------------------|-----------------------|----------------------|--------------|-----------------|--------------|---------------|
| LIKELIHOOD | Almost certain | | | | | |
| | Likely | | | | | |
| | Possible | | | | | |
| | Unlikely | | | | | |
| | Rare | | | | | |
| | | Insignificant | Minor | Moderate | Major | Severe |
| CONSEQUENCE | | | | | | |

Legend:

| | |
|--|---|
| | Critical risk – <i>Oversight by the RMC/Board</i> |
| | High risk – <i>Managed by CEO and relevant EGMs</i> |
| | Moderate risk – <i>Managed by BOT members</i> |
| | Low risk – <i>Managed as part of BAU</i> |

Recommendations:

It is recommended that the Risk Management Committee:

1. Discuss the proposed Risk Appetite; and
2. Recommend to the Board that it approve the Risk Appetite.

Regards

Anne Siegers
Group General Manager – Risk and Audit