Novartis Enterprise Risk Management

Risk management is an essential part of our Ethics, Risk & Compliance organization (ERC)

1 Member of Executive Committee of Novartis
Novartis Enterprise Risk Management

Risk management is an essential part of our Ethics, Risk & Compliance organization.

1. **Chief Ethics, Risk & Compliance**

   - **1 Mission:** Risk & Resilience
     - Safeguard Novartis from risks, so that we can reimagine medicine

2. **3 Areas**
   - Risk & Crisis Management
   - Policies & Controls
   - Monitoring & Remediation

3. **6 Teams**
   - Enterprise Risk Management
   - Enterprise Policies
   - Central Monitoring
   - Business Continuity & Emergency Management
   - Risk & Internal Control
   - Remediation

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Novartis Enterprise Risk Management
Our process to manage risks at Novartis

- Novartis Risk Universe covering 21 risk areas
- Previous risk assessment results
- Risk leadership roundtable discussion

- Novartis Enterprise Risk Management Tool
- Risk Reporting to the Executive Committee of Novartis
- Quarterly and Year-end reporting to the Risk Committee of the Board of Directors

- Promote risk awareness
- Reiterate risk ownership
- Support decision-making

Scope, Context, Criteria
- Risk identification
- Risk analysis
  - Risk impact
  - Risk likelihood
- Risk exposure
- Risk evaluation
  - Risk appetite

Risk workshops: At country / By BU – Division & Org. unit / By corporate function

Risk treatment
- Avoid
  - Not to start or continue with the activity that creates the risk
- Reduce
  - Define & execute an action plan to reduce likelihood and/or impact to a target level for the Novartis Risk Unit within a defined period
- Share
  - Transfer all or part of the risk externally
- Accept
  - Retain the risk by informed decision
- Pursue
  - Take or increase the risk in order to pursue an opportunity

Monitoring & review
- Monitor risk mitigation progress quarterly for Very High risks and every 6 months for all others
- Review of risk status centrally by ERM team

Recording & reporting
- Promote risk awareness
- Reiterate risk ownership
- Support decision-making
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Our evaluation method is a 5x5 matrix in combination with the Novartis Risk Compass that helps us to prioritize our risks and set the focus.

5x5 Risk Matrix

Novartis Risk Compass

- **Strategic Risks**: Risks that are most consequential to Novartis ability to execute its strategy or achieve its business objectives.
- **Operational Risks**: Risks resulting from inadequate or failed internal processes and/or systems, employee errors or from external events.
- **Emerging Risks**: Identified risks that require close monitoring, which may evolve to a significant Operational or Strategic Risk.
- **Awareness Topics**: Trending topics that are not accounted by Novartis risk management yet, but have the potential to become a new risk.
Novartis Risk Compass

Our top risks in 2020

**Strategic Risks**

1. **Key products and commercial priorities**
   Failure to deliver key commercial priorities and successfully launch new products

2. **Pricing, reimbursement and access**
   Pricing and reimbursement pressure, including access to healthcare

3. **Research and development**
   Failure or delay in the research and development of new products or new indications for existing products

**Operational Risks**

1. **Cybersecurity and IT systems**
   Cybersecurity breaches and catastrophic loss of IT systems

2. **Third party management**
   Failure to maintain adequate governance and oversight over third-party relationships, and failure of third parties to meet their contractual, regulatory or other obligations

3. **Manufacturing and product quality**
   Inability to ensure proper controls in product development and product manufacturing and failure to comply with applicable regulations and standards

**Emerging Risks**

1. **Geopolitical and socio-economic threats**
   Negative impact of geo- and socio-political threats and economic instability

2. **New ways of working**
   Impact on productivity and well-being of associates of constant remote working due to the current pandemic crisis and in planned future setup

3. **Global ERP implementation**
   Inability to implement and properly operate our new global ERP system

**Awareness Topics**

1. **Climate change**
   Climate change and associated increased risk of major natural disasters

2. **Changes in disease patterns, antimicrobial resistance and pandemics**
   Antimicrobial resistance is an increasing threat to public health as well as possible future pandemics

3. **Deterioration of Human Rights protection**
   Human Rights of workers, their dependents and community members may be impacted due to the economic-related effects of COVID-19

Comment: For details regarding the Novartis Risk Compass see page 5