

RISK MANAGEMENT

RISK MANAGEMENT APPROACH AND PHILOSOPHY

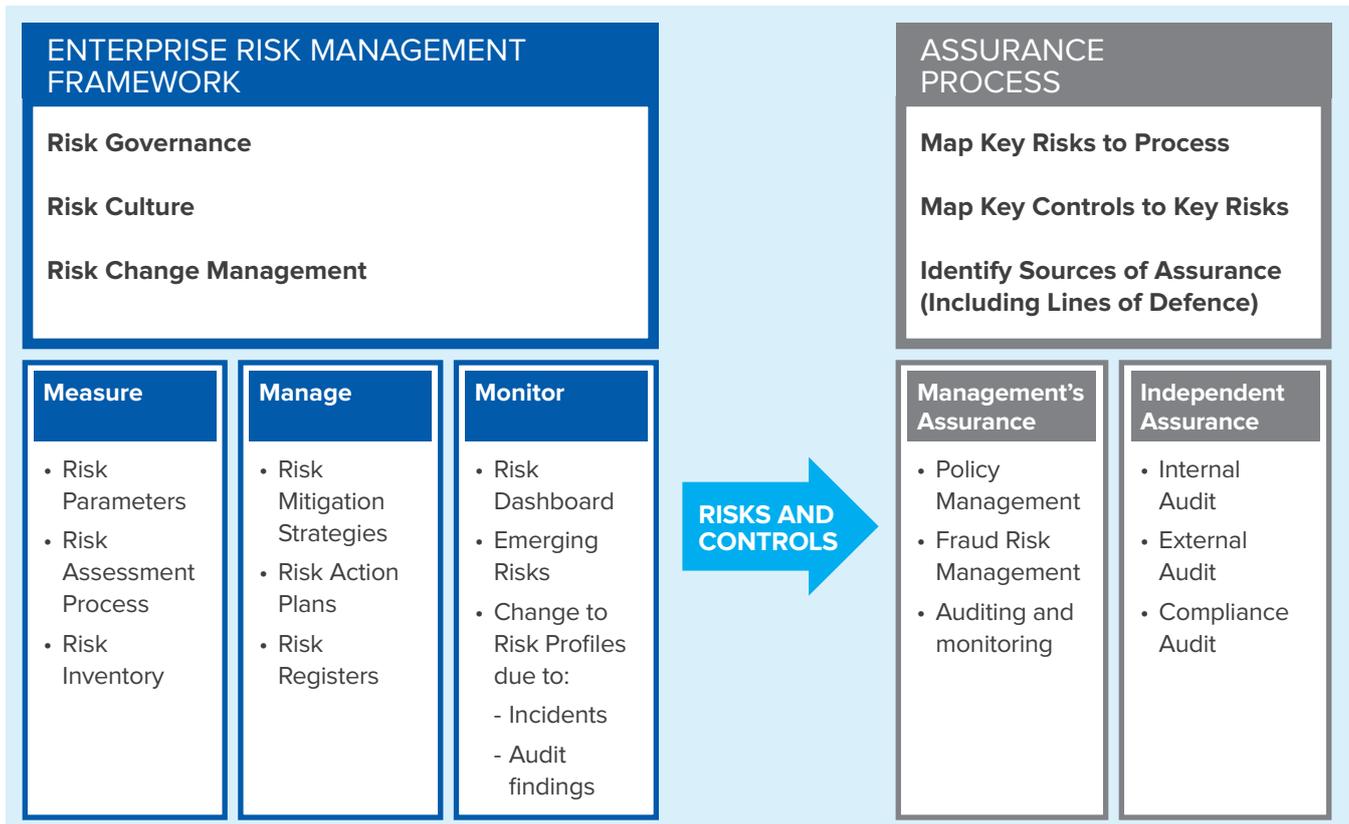
Risk Management is an integral part of the culture of SPH REIT (the “Manager”) and the Board of Directors (“Board”) is responsible for establishing the overall risk strategy and governance. The Manager advocates a continuous and iterative process for enhancing risk awareness and this has been implemented across the organisation through an Enterprise-Wide Risk Management (“ERM”) framework.

The risk management framework assists the Board and the Manager to assess, mitigate and monitor risk with the objective of capital preservation and ensure resilience in cyclical changes in business conditions. The framework also facilitates effective decision-making processes with due consideration to the risk-return trade-offs.

The Board delegates the oversight of the risk management framework to the Audit & Risk Committee (“ARC”). The ARC is responsible for ensuring the proper implementation and maintenance of the risk management programme, the Manager is accountable to the Board by identifying, assessing, monitoring, testing and recommending the tolerance levels of risks.

The Manager maintains a sound system of risk management and internal controls to safeguard stakeholders’ interests and its assets. The Manager’s risk management philosophy is built on a culture where risk exposures are mitigated by calibrating risks to acceptable levels while achieving its business plans and goals.

SPH REIT Board Assurance Framework below illustrates how the Board obtains assurance on the adequacy of the Manager’s risk management system and internal controls.



In pursuit of the Manager's risk management philosophy, the following ERM principles apply:

- Risks can be managed but cannot be totally eliminated.
- ERM is aligned with, and driven by business values, goals and objectives.
- Every level of management must assume ownership of risk management.
- Engagement of ARC on material matters relating to various types of risk and development of risk controls and mitigation processes.
- Risk management processes are integrated with other processes including budgeting, mid/long term planning and business development.

The key outputs of the Manager's Risk Management are:

- Defining a common understanding of risk classification and tolerance.
- Identifying key risks affecting business objectives and strategic plans.
- Identifying and evaluating existing controls and developing additional plans required to treat these risks.
- Implementing measures and processes to enable ongoing monitoring and review of risk severity and treatment effectiveness.
- Risk awareness training and workshops.
- Continuous improvement of risk management capabilities.

A robust internal control system is in place to address financial, operational, compliance and information technology risks that are relevant and material to operations. Periodical internal audit is conducted to ensure that directions, policies, procedures and practices are adhered and functioning as desired.

Real Estate Market Risks

Real estate market risks, such as volatility in rental rates and occupancy, competition and regulatory changes may have an adverse effect on property yields. Such risks are monitored to optimise opportunities for existing assets. These risks are also reviewed for acquisition or disposal opportunities. Any significant change to the risk profile is reported to the ARC for assessment and mitigation.

Operational Risks

Day-to-day operations are premised on Standard Operating Procedures ("SOPs") and benchmarked against industry best practices which include structured reporting and monitoring processes to mitigate operational risks. They are intertwined with all daily operations to ensure timeliness of business deliverables, operational growth and continuity to ensure quality operational performance, human capital output and overall business sustainability.

A comprehensive Business Continuity Plan ("BCP") is in place to minimise the potential impact from disruptions to critical businesses, in the event of catastrophes such as terrorism, pandemics and natural disasters. Operating and supporting service providers, as well as tenants are involved to ensure operational preparedness. The Manager practises risk transfer by procuring relevant insurance policies to mitigate certain financial losses.

Credit Risks

All leases are subject to prior assessment of business proposition and credit standing. To further mitigate risks, security deposits in the form of cash or banker's guarantees are required for tenancy agreements and debtor balances are closely monitored to manage potential bad debts.

Financing and Interest Rate Risks

The Manager proactively manages the financing risk of SPH REIT by ensuring its debt maturity profile is spread out without major concentration of debts maturing in a single year, as well as maintaining an appropriate gearing level and tenure for its borrowing. The Manager has put in place a well-staggered debt profile with weighted average term to maturity of 2.9 years and gearing level of 25.7% as at 31 August 2015. Refinancing will occur in three tranches of approximately equal size.

The Manager monitors the portfolio exposure to interest rate fluctuations arising from floating rate borrowing and hedges its exposure by way of interest rate swaps and fixed rate loan. As at 31 August 2015, 84.7% of the borrowing is hedged into fixed rate. The longer tenure tranches maturing in 2018 and 2020 have been fully fixed.

In addition, the gearing limit is monitored to ensure compliance with the Code on Collective Investment Schemes issued by the Monetary Authority of Singapore ("MAS").

Liquidity Risks

The Manager actively manages the cash flow position and operational requirements to ensure there is sufficient working capital to fund daily operations and meet other obligations. In addition, to manage bank concentration risks, the Manager places its cash balances as well as establishes its debt facility with more than one reputable bank of high credit rating.

RISK MANAGEMENT

Investment Risks

All investment proposals are subject to a rigorous and disciplined assessment taking into consideration the asset valuation, yield and sustainability. Sensitivity analysis is included in each review to assess the impact of a change in assumptions used. Potential acquisitions will be reviewed and analysed by the Manager before any recommendations are tabled for deliberation and approval by the Board. Upon the Board's approval, the investment proposal will be submitted to the Trustee for final endorsement. The Trustee scrutinises the Manager's compliance with the MAS Property Fund Guidelines and the provisions of the Trust Deed including all relevant provisions stipulated by the Singapore Stock Exchange.

Legal, Regulatory and Compliance Risks

The Manager takes a resolute stance in compliance, observing all laws and regulations including, restrictions and requirements of the Listing Manual of the Singapore Exchange Securities Trading Limited, MAS' Property Funds Guidelines and the provisions in the Trust Deed. Written corporate policies and procedures facilitate staff awareness and provide clear instructions for implementation of operational and business processes to minimise inadvertent contravention

of applicable legislations and regulations and counterparty obligations and all contractual agreements. Quarterly reports on significant legal, regulatory and compliance matters are submitted to ARC for guidance.

Formal processes for Workplace Safety and Health compliance have also been implemented for all buildings, shopping malls, offices including any business and public services. In addition, a compliance framework containing policies and practices to regulate the proper management of personal data is in place to respond to the requirements of the Personal Data Protection Act (PDPA).

Fraud Risks

The Manager has in place a Code of Business Ethics and Employee Conduct (Code of Conduct) which states that the organisation does not tolerate any malpractice, impropriety, statutory non-compliance or wrongdoing by staff in the course of their work. The Code of Conduct covers areas such as fraud, business and workplace behavior, safeguarding of assets, proprietary information and intellectual property. Any breach of the Code of Conduct may result in disciplinary action including dismissal or termination of the employment contract. The Board has established a whistle blowing policy for employees

and any other persons to raise concerns about potential or actual improprieties in financial or other operational matters.

Technology & Cyber Risks

Information Technology (IT) plays a vital role in the sustainability of the business and the Manager is fully cognizant of the evolving risks in technology and cyber security. IT system failures may cause downtime in business operation and adversely affect operational efficiency and integrity. It has therefore implemented tight controls within the corporate systems to address the threats. In this respect, IT policies are prescribed to guide staff on appropriate and acceptable use of IT resources including computers, networks, hardware, software, email, applications and data in order to ensure the efficiency and integrity of these computing resources.

All systems are regularly reviewed to ensure that the security features are adequate for safeguarding and preventing unauthorised access or disclosure of any data that is in the organisation's possession. As part of the BCP, an IT disaster recovery programme is also in place to ensure systematic off-site back-up of data and security updates.