



# 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.

The current risk management framework follows a general principle of identification, measurement, monitoring and mitigation where possible on different types of risks. This framework assists the Board and the Manager to assess, mitigate and monitor risks with the objective of capital preservation and ensures 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 overseeing the proper implementation and maintenance of the risk management programme, and 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.

In pursuit of SPH REIT’s risk management philosophy, the following principles apply:

- Risks can be managed but cannot be totally eliminated.
- 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 risk management system is in place to address financial, operational, compliance and 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.

## COVID-19 Risks

In the light of COVID-19 which has commenced since early last year and spread worldwide, the Manager has since identified the emerging new risks, assessed the potential impact on the businesses and undertook initiatives to address these risks.

The Manager has implemented telecommuting and split team operations for the employees. Measures were also taken to intensify the cleaning and disinfecting of the assets as well as instituting safe distancing to limit crowding. Besides compliance with the various government regulations and relief schemes, the Manager has also introduced various initiatives for tenants to help mitigate the effects of declining footfall and sales. These include tailored relief assistances depending on

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individual tenant's circumstances, as tenants with different trade types have different operating metrics. For financial flexibility, additional credit facilities have also been secured to be utilised when the need arises. The Manager has held regular meetings on crisis management to address the above and other business risks to maintain the long-term sustainability of the assets.

## **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 minimise adverse financial impact on 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**

Apart from the added COVID-19 measures mentioned above, all other day-to-day operations are governed by relevant policies and Standard Operating Procedures ("SOPs") and benchmarked against industry best practices which include structured reporting and monitoring processes to mitigate operational risks and safeguard business sustainability.

A comprehensive Business Continuity Plan ("BCP") is in place to minimize 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 practices risk transfer by procuring relevant insurance policies to mitigate certain financial losses.

## **Outsourcing Risks**

In Australia, the Manager relies on the appointed investment and property

managers for the day-to-day running of Westfield Marion Shopping Centre and Figtree Grove Shopping Centre. Operational risks associated with offshore investments are reduced through the engagement of reputable outsourced operators with strong localised experience in Australia.

Regular reports are received from, and meetings are scheduled with, the appointed managers for purposes of reviewing performance and agreeing on actions for further improvement. The fees payable to these outsourced parties are structured to include variable component that is linked to performance to ensure greater alignment of interests.

## **Credit Risks**

All leases are subject to prior assessment of business proposition and credit risk involved. To further mitigate risks, security deposits in the form of cash or banker's guarantees are obtained where appropriate with due consideration of the tenant's financial strength and market practices. Debtor balances and collection trends are closely monitored for necessary follow up actions.

## **Financing, Interest Rate and Foreign Exchange Risks**

The Manager proactively manages the financing risk of SPH REIT by ensuring that 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 borrowings.

The Manager monitors the portfolio exposure to interest rate fluctuations arising from floating rate borrowings and hedges its exposure by way of interest rate swaps and fixed rate loans.

In addition, the gearing limit and interest coverage ratio are monitored to ensure compliance with the Code on Collective Investment Schemes issued by the Monetary Authority of Singapore ("MAS"). Foreign exchange exposure arising from overseas investments has also been largely hedged by matching funding in either same currency financing or cross currency swap arrangements.

### **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 facilities with more than one reputable bank of good credit rating.

### **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 approval. The Trustee monitors the Manager's compliance with the Property Fund Appendix of the Code on Collective Investment Schemes, restrictions and requirements of the listing manual of the Singapore Exchange Securities Trading Limited, and the provisions of the Trust Deed.

### **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 Appendix and the provisions in the Trust Deed. Written corporate policies and procedures facilitate staff awareness and provide clear instructions for the implementation of operational and business processes to minimise inadvertent contravention of applicable legislations and regulations, 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, and offices, including any business and public services.

In Singapore, appropriate steps are taken to ensure compliance with the Cybersecurity Act and the Personal Data Protection Act 2012 ("PDPA"). In light of the new changes to the Data Privacy Act made effective from February

2021, we have since revised our internal policies to align with the latest regulations. In Australia, the investment and property managers also have contractual obligations to ensure compliance with the Privacy Act 1988.

The Monetary Authority of Singapore ("MAS") issued the Guidelines on Environment Risk Management on 20 December 2020 and have provided an 18 months transition period for the implementation. The Manager will incorporate the requirements and necessary disclosures into the FY2022 annual report.

### **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, and the 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 whistleblowing 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. The Manager has therefore implemented tight controls within the corporate IT systems to address such threats. In this respect, IT policies are in place 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.