

# ENTERPRISE RISK MANAGEMENT

Risk management is an integral part of CapitaLand's business at both the strategic and operational levels. A proactive approach towards risk management supports the achievement of the Group's business objectives and corporate strategy of ONE CapitaLand, hence creating and preserving value.

The Group recognises that risk management is just as much about opportunities as it is about threats. To capitalise on opportunities, the Group has to take measured risks. Risk management is not about pursuing risk minimisation as a goal, but rather optimising the risk-reward relationship within known and agreed risk appetite levels. The Group therefore takes risks in a prudent manner for justifiable business reasons.

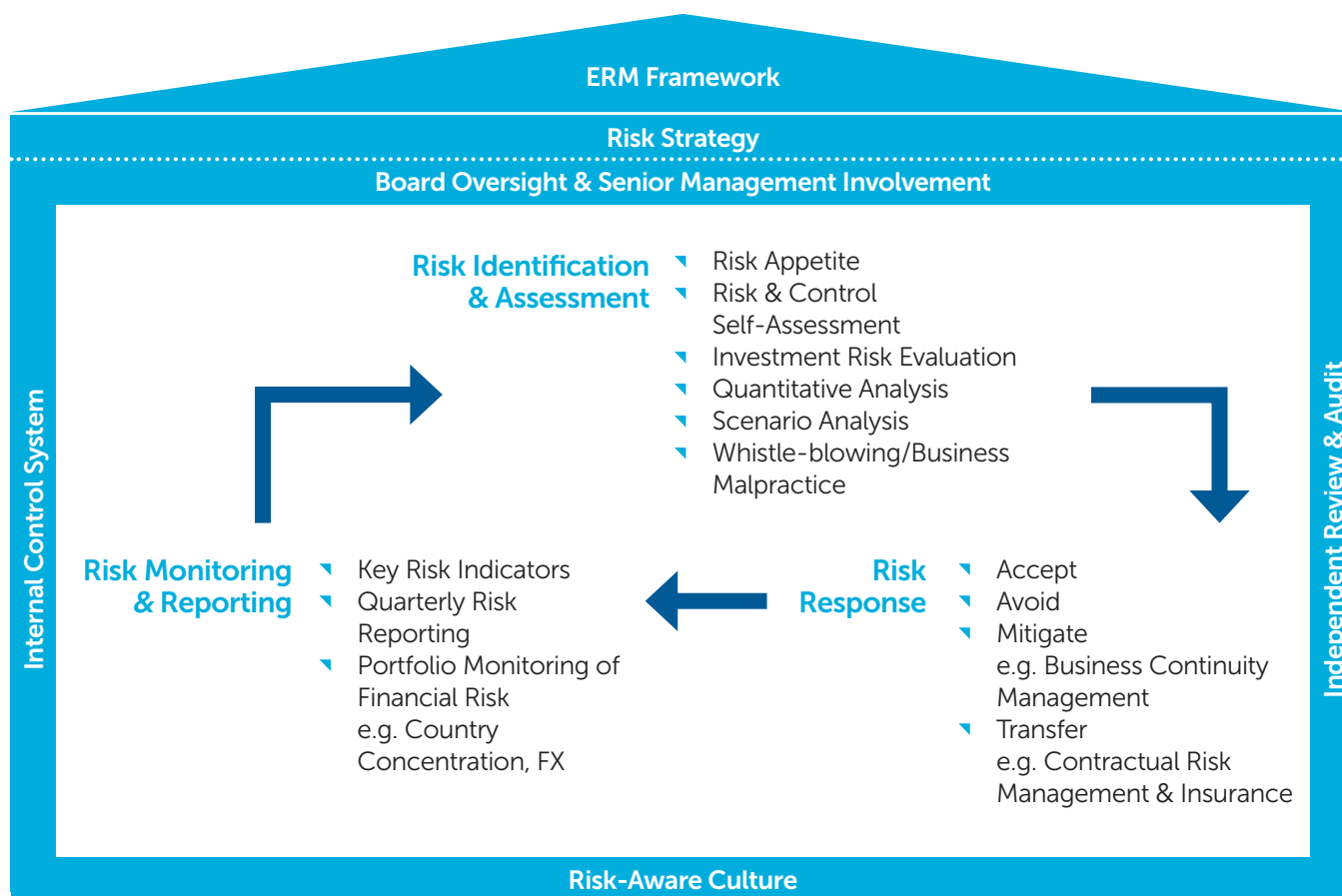
The Board of Directors is responsible for the governance of risk across the Group. The responsibilities include determining the Group's risk appetite; overseeing the Group's Enterprise Risk Management (ERM) Framework; regularly reviewing the Group's risk profile, material risks and mitigation strategies; and ensuring the adequacy and effectiveness of the risk management framework and policies. For these purposes, it is assisted by the Risk Committee (RC), established in 2002, which provides dedicated oversight of risk management at the Board level, including ad-hoc risk matters referred to it by the Board such as the implementation of Enterprise Resource Planning (ERP) system.

The RC currently comprises five independent Board members and the committee meets on a regular basis. The meetings are attended by the President & Group CEO as well as other key management staff. The RC is assisted by the Risk Assessment Group (RAG), a dedicated and independent in-house unit comprising highly specialised and professional members with vast and diverse experiences in financial and operational risk management.

The Board approves the Group's risk appetite, which determines the nature and extent of material risks that the Group is willing to take to achieve its strategic and business objectives. The Group's Risk Appetite Statement (RAS) is expressed via formal, high-level and overarching statements and accompanying risk limits which determine specific risk boundaries established at an operational level. Having considered the interest of key stakeholders, the RAS sets out explicit and forward-looking views of the Group's desired risk profile and ensures it is aligned with the Group's strategy and business plans.

A team comprising the President & Group CEO and other key management personnel is responsible for directing and monitoring the development, implementation and practice of ERM across the Group. Operationally, risk champions from the different Strategic Business Units (SBUs) and corporate functions, as well as various specialist support functions, are tasked to develop, implement and monitor risk management policies, methodologies and procedures in their respective areas.

Enterprise Risk Management Framework



The Group's ERM Framework is adapted from the International Organization for Standardization (ISO) 31000 International Risk Management Standards. It also takes reference from the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control-Integrated Framework and other relevant best practices and guidelines. It sets out the required environmental and organisational components which enable the Group to manage risks in an integrated, systematic and consistent manner. The ERM Framework and related risk management policies are reviewed annually and have been validated by external consultants.

A robust internal control system and an effective, independent review and audit process are the twin pillars that underpin the Group's ERM Framework. While

the line management is responsible for the design and implementation of effective internal controls using a risk-based approach, the Internal Audit function reviews such design and implementation to provide reasonable assurance to the Audit Committee (AC) on the adequacy and effectiveness of the internal control system.

CapitaLand believes that having the right risk culture and people with the right attitude, values and knowledge are fundamental to the Group's success of ERM. Therefore, the RAG continues to proactively enhance risk management knowledge by conducting regular workshops for all levels and functions, and to promote a culture of risk awareness which embeds risk management principles in decision-making and business processes.

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Annually, the RAG facilitates and coordinates the Group-wide Risk and Control Self-Assessment (RCSA) exercise that requires SBUs and corporate functions to proactively identify, assess and document material risks as well as the corresponding key controls and mitigating measures needed to address them. Material risks and their associated controls are consolidated and reviewed at the Group level before they are presented to the RC, AC and the Board.

## MANAGING MATERIAL RISKS

CapitaLand undertakes an iterative and comprehensive approach to identifying, managing, monitoring and reporting material risks across the Group. These material risks include:

### Competition Risk

The Group faces keen competition from established players and new market entrants in the real estate industry. It adopts a relentless approach to strengthening its competitiveness through high-quality products and services, product differentiation, pricing, asset enhancement initiatives and branding. The Group also promotes tenant and customer loyalty through customer-centric initiatives and shopper loyalty programmes. A team of in-house experts provides regular analysis on market trends. Innovation workshops are also conducted regularly to brainstorm ideas to anticipate as well as respond to these trends.

### Economic Risk

CapitaLand is exposed to developments in major economies, and key financial and property markets. These developments may reduce revenue, increase costs and result in downward revaluation of our assets. Market illiquidity during a financial crisis makes asset divestment challenging and this can affect CapitaLand's investment and strategic objectives. The Group manages this by adopting a disciplined approach to financial management, having a diversified portfolio across geographies with established Board-approved country concentration limits, and focusing on cities where the Group has operational scale and where underlying economic fundamentals are more robust. A team of in-house experts monitors the macroeconomic environment and advises senior management on future macroeconomic trends and their implications on the property markets. Scenario analysis is performed to calculate potential value deteriorations by applying an in-house developed Value-at-Risk (VaR) model.

### Climate Change Risks

CapitaLand recognises the importance of managing climate change faced in its development projects and operations. This includes physical risks such as rising sea levels, flash floods, fresh water depletion, violent storms, intense heat waves, as well as changes in government regulations and other climate related developments. With the Paris Agreement which came into force in November 2016, countries are undertaking actions to mitigate climate change where more stringent regulations are expected. CapitaLand is positioned to face such challenges and is constantly reviewing its mitigation and adaptation efforts which include a target to achieve green certification of its existing properties by FY 2030. CapitaLand is also ISO 14001 certified for its environmental management system in 15 countries and sets energy, water and carbon emission intensity targets for its operational properties.

### Safety, Health & Well-being Risks

CapitaLand recognises the importance of managing safety, health and well-being risks faced in its development projects and operations. The Group also understands the positive impact that a safe and healthy building and workplace can have on its tenants, residents, shoppers, public and staff. It implemented an EHS Management System which has achieved the Occupational Health and Safety Assessment Series (OHSAS) 18001 certification across 15 countries.

### Financial Risk

Given the Group's diversified global business, CapitaLand is exposed to financial risks including liquidity, foreign currency and interest rate risks. The Group measures and evaluates these financial risks using established statistical risk management models (e.g. VaR, stress testing and scenario analysis). It continues to focus on instilling financial discipline, deploying capital to earn optimal risk-adjusted returns, and maintaining a strong balance sheet to invest in suitable opportunities. For more information on the Group's Financial Risk Management, please refer to the Financial Risk Management section on Pg 210 of this annual report.

### Fraud & Corruption Risk

CapitaLand is committed to the highest standards of integrity and this is enshrined as one of its core values. The Group has zero tolerance for any fraud, corruption or bribery in the conduct of its business activities. Consistent with this commitment, the Group has in place various policies

and guidelines, including an employee code of conduct and an anti-corruption policy. The anti-corruption policy reiterates the tone from the top and sets out CapitaLand's Global Principles on Ethical Business Conduct. Every year, employees sign the CapitaLand Pledge to renew their commitment to uphold the Group's core values. CapitaLand also has a whistle-blowing policy to encourage the reporting of suspected misconduct by establishing a clearly defined process through which such reports can be made in confidence and in good faith, without fear of reprisal.

### Information Technology Risk

With increased reliance on Information Technology (IT) as a business enabler, CapitaLand has in place Group-wide policies and procedures which set out the governance and controls of IT risks, including cyber-risks. Appropriate measures are in place to ensure the confidentiality, integrity, and availability of CapitaLand's information assets. This includes implementing access controls, building up data security, raising employees' IT security awareness through activities such as phishing campaigns, and conducting IT disaster recovery exercise annually to ensure business recovery objectives are met.

### Investment & Divestment Risk

At the project level, an independent risk evaluation (for projects above a stipulated investment value threshold) is conducted by the RAG to ensure that all material risks are identified and quantified. The risks of each proposal are highlighted and all parameters are benchmarked against objective market indicators and historical projects undertaken by the Group. If necessary, risk mitigating measures are proposed. To ensure that the potential returns of new investments commensurate with the risks undertaken, the weighted average cost of capital and hurdle rates for various countries and business units are computed and adopted as investment benchmarks. They are reviewed annually and, where necessary, adjusted to reflect corresponding changes in business risks and capital costs of investments. This seeks to ensure that CapitaLand's investment portfolios create value for its stakeholders on a risk-adjusted basis. Projects under development are tracked for progress update and monitored for investment performance.

### Political & Policy Risk

Given the geographical diversity of its business, CapitaLand is exposed to various levels of political and policy risks such as political leadership uncertainty, inconsistency in public policies, social unrest, change in property-related regulations etc. Such risks may threaten the economic and sociopolitical environment which may, in turn, affect the financial viability of the Group's investments. To mitigate these risks, overseas operations are managed by experienced managers and teams who are familiar with the local conditions and cultures. Risk analysis is performed to study political climate changes in establishing the respective country limits on an annual basis.

### Project Management Risk

The Group adopts a rigorous project management process to ensure that project cost, quality and time objectives are met. There are stringent pre-qualification procedures to appoint well-qualified vendors. Key criteria such as vendors' track records and financial performances are assessed. Regular site visits are conducted to closely monitor the progress of projects and manage potential risks of delays, poor workmanship and cost overruns. In-house teams comprising experienced technical staff provide guidance and independent audit checks on quality of architectural design, mechanical and engineering detailing, and safety.

### Regulatory & Compliance Risk

CapitaLand has global operations and is subject to the local laws and regulations of the markets it operates in. These include applicable listing, data privacy and anti-corruption laws and regulations. The Group has in place a framework that proactively identifies applicable laws and regulatory obligations, and embeds compliance into the day-to-day operations.