

ENTERPRISE RISK MANAGEMENT

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CapitaLand Mall Trust and its subsidiaries (CMT Group) take a proactive approach to risk management, making it an integral part of our business—both strategically and operationally. Our objective is not risk minimisation, but rather the optimisation of opportunities within the known and agreed risk appetite levels set by our Board of Directors (Board). In short, we take measured risks in a prudent manner for justifiable business reasons.

GOVERNANCE

The Board is responsible for the governance of risk across CMT Group. The Board determines CMT Group's risk appetite; oversees the Manager's Enterprise Risk Management (ERM) Framework; regularly reviews CMT Group's risk profile, material risks and mitigation strategies; and ensures the adequacy and effectiveness of the risk management framework and policies. For these purposes, it is assisted by the Audit Committee (AC) which provides dedicated oversight of risk management at the Board level, including adhoc risk matters referred to it by the Board.

The AC, made up of three independent and one non-independent Board members, meets regularly. The meetings are attended by the Chief Executive Officer (CEO) as well as other key management personnel.

The Board approves CMT Group's risk appetite, which determines the nature and extent of material risks that the Manager is willing to take to achieve its strategic and business objectives. CMT 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. Taking the interests of key stakeholders into consideration, the RAS sets out explicit and forward-looking views of CMT Group's desired risk profile and ensures it is aligned with CMT Group's strategy and business plans.

The CEO, together with a team of other key management personnel, is responsible for directing and monitoring the development, implementation and practice of ERM across CMT Group.

The ERM Framework is adapted from the International Organization for Standardization (ISO) 31000 International Risk Management Standards. It is also guided by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control-Integrated Framework and other relevant best practices and guidelines. It specifies the required environmental and organisational components needed to manage risks in an integrated, systematic and consistent manner. The ERM Framework and related risk management policies are reviewed annually.

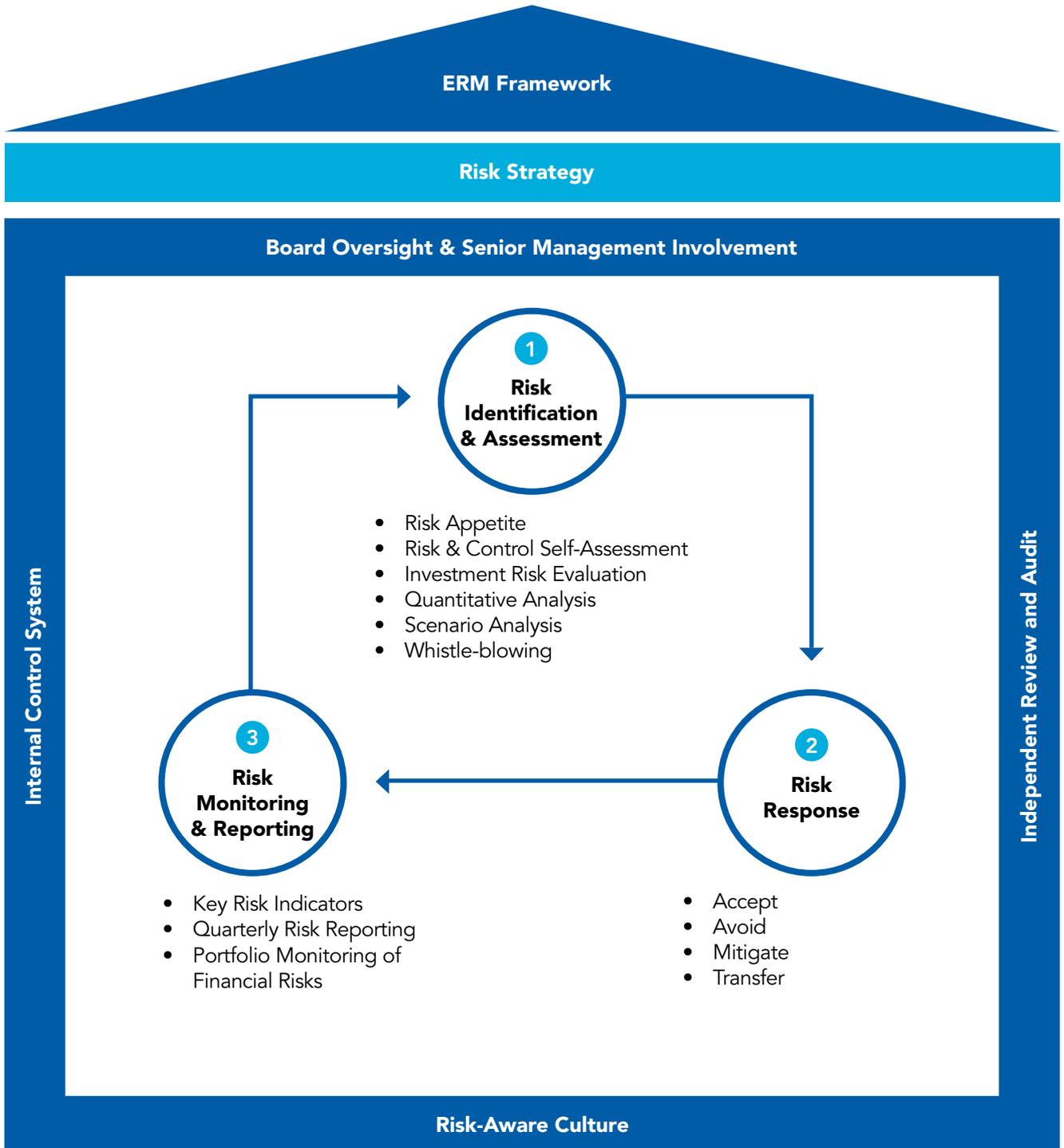
A robust internal control system and an effective, independent review and audit process underpin the Manager's ERM Framework. While line management is responsible for the design and implementation of effective internal controls using a risk-based approach, the outsourced Internal Audit function from CapitaLand reviews the design and implementation to provide reasonable assurance to the AC on the adequacy and effectiveness of the risk management and internal control systems.

CMT Group's successful ERM program is based on fostering the right risk culture. The Manager works closely with CapitaLand's Group Risk Management Department (GRM) to conduct regular workshops to enhance risk management knowledge and promote a culture of risk awareness. Risk management principles are embedded in all our decision-making and business processes. Once a year, the Manager coordinates a CMT Group Risk and Control Self-Assessment (RCSA) exercise. This requires the respective risk and control owners to identify, assess and document material risks which include Environment, Social and Governance (ESG) - relevant risks along with their key controls and mitigating measures. Material risks and their associated controls are consolidated and reviewed by the Manager before they are presented to the AC and the Board.

MANAGING MATERIAL RISKS

The Manager takes a comprehensive, iterative approach in identifying, managing, monitoring and reporting material risks across CMT Group. These material risks are detailed on page 66 to 69.

Enterprise Risk Management Framework



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Material Risk	Details	Key Mitigating Action
Business Interruption	<ul style="list-style-type: none"> Exposure to business interruption risk arising from sudden and major disaster events such as fire, prolonged power outages or other major infrastructure failures which may significantly disrupt operations at our malls or data centres. 	<ul style="list-style-type: none"> Proactive facilities management (for example, routine inspection and scheduled maintenance) and having crisis management procedures for each property. The outsourced Information Technology (IT) team from CapitaLand has a defined disaster recovery plan which is reviewed and tested annually.
Climate Change	<ul style="list-style-type: none"> Physical risks such as rising sea levels, violent storms, long intense heat waves, flash floods, and fresh water depletion. Transitional risks include potentially more stringent regulations and increased expectations from stakeholders. 	<ul style="list-style-type: none"> CMT Group works in conjunction with CapitaLand to regularly review its mitigation and adaptation efforts which include future proofing its portfolio by setting targets for green building rating, carbon emissions and energy efficiency. CapitaLand has in place a global environment, health and safety management system which is externally certified to ISO 14001.
Competition	<ul style="list-style-type: none"> Keen industry competition from established players, online businesses and new market entrants who are able to capture our customers by meeting their demands. 	<ul style="list-style-type: none"> Constantly strive to differentiate ourselves against our peers through ongoing brand building. Constant stream of customer-centric initiatives and a shopper loyalty programme also help set us apart. In-house team of analysts keeps CMT Group on top of latest market trends.
Credit	<ul style="list-style-type: none"> Exposure to potential volatility in earnings caused by tenants' failure to fulfil their contractual lease payment obligations, as and when these are due. 	<ul style="list-style-type: none"> Minimise credit risk through a stringent collection policy. Collect upfront payment of security deposit of an amount typically equivalent to three months' rent. Maintain vigilant debt monitoring and collection procedures.
Economic	<ul style="list-style-type: none"> Exposure to event risks, in major economies and key financial and property markets. These events may reduce revenue, increase costs and result in downward valuation of our assets. Market illiquidity during a financial crisis makes asset investment and divestment challenging and can affect CMT Group's investment and strategic objectives. 	<ul style="list-style-type: none"> Disciplined approach to financial management and a well-balanced portfolio across Singapore. Constantly monitor macroeconomic trends, policies and regulatory changes.

Material Risk	Details	Key Mitigating Action
Fraud, Bribery & Corruption	<ul style="list-style-type: none"> Any forms of fraud, bribery and corruption that could be perpetuated by employees, third parties or collusion between employees and third parties. 	<ul style="list-style-type: none"> CapitaLand promotes the right ethical culture at all levels of the CapitaLand Group to build strong foundations for a leading real estate company. Continue adoption of a zero tolerance stance against fraud, bribery and corruption in the conduct of business, and reinforce the importance of integrity – one of CapitaLand's core values. Communicate the commitment to integrity from the top through policies such as Fraud, Bribery & Corruption (FBC) Risk Management Policy, Whistle-blowing Policy, and Ethics and Code of Business Conduct Policies. All employees to sign the CapitaLand Pledge to renew their commitment to uphold the Group's core values annually. Rolled out online FBC Quiz in 2019 to heighten staff awareness.
Information Technology/ Cyber Security	<ul style="list-style-type: none"> Ongoing business digitalisation exposes the business to IT-related threats which may result in compromising the confidentiality, integrity and availability of CMT Group's information assets and/or systems. This may have significant negative impact to customer experience, financials and/or regulatory compliance. 	<ul style="list-style-type: none"> The outsourced IT team from CapitaLand executes its Cyber Security Strategy through ongoing review against existing/evolving threat landscapes and institute measures to minimise vulnerability exposure and manage threat vectors. Roll out ongoing staff IT Security Awareness Training to counter human intervention in the information security chain. Periodically review and update Group-wide IT Security Policy and Data Protection Framework to ensure relevancy. Maintain and test IT Security Incident Management Procedure to ensure prompt response and timely remediation to cyber security incident. Conduct annual Disaster Recovery Plan (DRP) exercise to ensure timely recoverability of business critical IT systems.
Interest Rate and Foreign Currency	<ul style="list-style-type: none"> Exposure to interest rate volatility on some debts which are on floating basis. Exposure to foreign exchange volatility for bonds issued in foreign currencies. 	<ul style="list-style-type: none"> Actively review and maintain an optimal mix of fixed and floating rate borrowings. Seek to minimise the level of interest rate risk by borrowing at fixed rate or hedging through interest rate swaps. Seek to minimise foreign currency risks by entering into cross currency swaps to hedge the foreign currency denominated bonds into SGD for both the principal amount and the periodic interest payments.

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Material Risk	Details	Key Mitigating Action
Investment and Divestment	<ul style="list-style-type: none"> Deployment of capital into loss making or below targeted returns investments such as asset enhancement initiatives, property acquisition or redevelopment, and greenfield developments. 	<ul style="list-style-type: none"> Evaluate all investments against a rigorous set of investment criteria which includes potential for growth in yield, rental sustainability and potential for value creation. Board reviews and approves all major investment and divestment decisions. Conduct rigorous due diligence reviews on all investment and divestment proposals where key financial assumptions are reviewed, and sensitivity analysis are performed on key variables. Identify potential risks associated with proposed projects and issues that may affect smooth implementation or attainment of projected outcomes at the evaluation stage and devise action plans to mitigate such risks as early as possible.
Leasing	<ul style="list-style-type: none"> Strong competition, poor economic and market conditions are some key factors that could result in key tenants not renewing their leases, adversely affecting the leasing performance of CMT Group's properties. 	<ul style="list-style-type: none"> Establish and maintain a diversified tenant base and sustainable trade mix. Proactive tenant management strategies which are in line with the malls' positioning are in place. Closely monitor tenants' sales performance and maintain positive relationships and rapport with retailers to build loyalty with CMT Group's malls.
Liquidity	<ul style="list-style-type: none"> Poor management of cash flows can result in funding gaps which may lead to financial losses and defaults, delays in project completion and negative reputational impact. 	<ul style="list-style-type: none"> Actively monitor CMT Group's debt maturity profile, operating cash flows and the availability of funding to ensure that there are sufficient liquid reserves, in the form of cash and banking facilities, to finance CMT Group's operations and asset enhancement initiatives. Access to various sources of funds from both banks and capital markets to minimise over-reliance on a single source of funds for any funding or refinancing requirements.
Physical Security	<ul style="list-style-type: none"> Subject to risks of terrorism or sabotages such as terrorist activities, violent demonstrations or riots, theft, burglary, vandalism that will adversely affect our malls. 	<ul style="list-style-type: none"> Ensure that there are standard operating procedures in place at each of our malls. Our Property Managers are prepared to manage the situations together with the police and civil defence force in the event of terrorist attacks and sabotages. Conduct yearly evacuation drills in the malls to familiarise the tenants and staff with the emergency response plan. Equip our malls with automated external defibrillators (AED) and our Property Managers undergo accredited training in AED, cardiopulmonary resuscitation and first aid every two years. Our Emergency Response Teams undergo certified refresher trainings annually to prepare themselves adequately in times of emergency.

Material Risk	Details	Key Mitigating Action
Project Management	<ul style="list-style-type: none"> Inability to meet the project's key deliverables in relation to cost, quality and time to completion which may adversely impact the profitability of CMT Group. 	<ul style="list-style-type: none"> Appoint vendors through a stringent pre-qualification procedure to assess key criteria such as vendors' track records and financial performances. Conduct regular site visits to closely monitor progress of development projects. In-house teams of experienced technical staff to provide guidance and independent audit checks on safety, quality of architectural design, and mechanical and electrical engineering detailing.
Regulatory & Compliance	<ul style="list-style-type: none"> Subject to applicable laws and regulations in the market CMT Group operates, such as the SGX-ST Listing Rules, the Code on Collective Investment Schemes issued by the Monetary Authority of Singapore, the Alternative Investment Fund Managers Directive (AIFMD), the Securities and Futures Act, the Code of Corporate Governance and the tax rulings issued by the Inland Revenue Authority of Singapore. Breaches to laws and regulations may lead to hefty penalties/fines and negative publicity. 	<ul style="list-style-type: none"> Maintain a framework that proactively identifies the applicable laws and regulations, and embed compliance into the day-to-day operations. In-house specialised teams such as compliance and tax provide advisory services and updates on latest changes to laws and regulations.
Safety, Health & Well Being	<ul style="list-style-type: none"> Increased expectations from stakeholders to provide safe and healthy environment, including well-being, at our development projects and operating properties. 	<ul style="list-style-type: none"> CMT Group works in conjunction with CapitaLand to regularly review its mitigation efforts which includes work-related safety targets and has in place a global environment, health and safety management system which is externally certified to OHSAS 18001.