

ENTERPRISE RISK MANAGEMENT

Enterprise Risk Management (“**ERM**”) is integral to the business and culture of BHG Retail REIT (the “**REIT**”). Through a formalised framework that informs the decision-making of all staff, ERM not only preserves, but enhances value.

The Board of Directors (the “**Board**”) is responsible for the overall risk strategy and risk governance of the REIT. It achieves this through the approval of the REIT’s risk appetite and the implementation of sound risk management and internal control practices. The Board is supported by the Audit and Risk Committee in these matters.

In working within the implemented ERM Framework, the Manager is empowered with a sound structure for the REIT to capitalise on opportunities and achieve its investment objectives in a measured manner. This allows the Manager to take prudent risks in line with the approved risk appetite.

ERM FRAMEWORK

The ERM Framework was built on the premise that the REIT would have a standard and consistent approach to risk management in its culture and strategic planning processes. This would support the setting of priorities and making of decisions at the portfolio and Manager level.

Further, the ERM Framework applies a systematic approach to effectively manage and control risks in the Manager’s governance and operations so as to achieve optimal outcome for all its operations, business ventures, collaborations and partnerships.

The ERM Framework will be reviewed every two years. In the event of changes in regulations, country of operations, nature of business or any other event which would affect the REIT and the Manager, the Framework would be reviewed accordingly and updated immediately.

The Board and Manager have worked closely with input from Deloitte & Touche Enterprise Risk Services Pte Ltd in ensuring that the ERM Framework remains relevant and proceeds in accordance with current regulatory practices and requirements.

Further, the ERM Framework is supplemented by an outsourced Internal Audit function, which measures and evaluates the effectiveness of the procedures in place under the Framework. An internal audit exercise is conducted annually. In 2018, the exercise was conducted at the REIT’s portfolio property in Beijing, and at the REIT Manager’s office.

In addition, the Manager has established a semi-annual Control Self-Assessment exercise that is undertaken by the Manager and its subsidiaries. The CSA serves as a monitoring mechanism for management, as individual risk owners are required to assess the effectiveness of existing risk management and controls processes.

KEY RISKS IN FY 2018

Real Estate Risks

The REIT’s portfolio faces real estate market risks in China. These may include rental rate volatility and changes in occupancy rates. Generally, an adverse development may lead to a reduction in revenue or an increase in costs, which could result in a downward adjustment of the REIT’s assets.

The Manager manages real estate risk by adopting a proactive asset management strategy. Portfolio properties are monitored closely to ensure that existing assets are optimally leveraged. Additionally, the Manager may consider divesting assets that no longer provide yield-accretive opportunities.

The Manager closely monitors the tenant occupancy rate and tenant mix of each portfolio property. The collated data from the portfolio properties allows the Manager to optimise the tenants in each portfolio property to maximise its attractiveness to target customers in the community.

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Investment Risks

Potential acquisitions are subject to rigorous due diligence, taking into consideration its potential for yield enhancement, long-term sustainability and its asset valuation. Any potential acquisition is first discussed with the Board. A conditional approval is obtained for commencement of review, analysis and due diligence after which the findings are presented to the Board for consideration.

Further, transactions related to acquisitions or divestments of real estate assets are monitored closely to ensure compliance with the requirements in the Property Funds Appendix, and the Listing Manual of the Singapore Exchange Securities Limited ("**SGX-ST**").

Disaster and Business Interruption Risk

The Manager is cognizant that unforeseen circumstances may interrupt the business of each portfolio property. These circumstances may include natural disasters, fire, and equipment failures.

Accordingly, each portfolio property has in place sufficient insurance coverage against such occurrences. Each portfolio property has implemented recovery plans, which are tested at intervals throughout the year to ensure staff and tenant familiarity. Further, the Manager has put in place proactive initiatives to ensure the upkeep and maintenance of the premises and equipment contained within each portfolio property.

Financial and Interest Rate Risk

The Manager ensures that financial market risks are closely monitored by the Manager, and reported to the Board. The Manager adopts a proactive strategy to manage the risks associated with the changes in interest rates on any loan facilities. As at 31 December 2018, the REIT has entered approximately half of the offshore loan into interest rate swap transactions. The fair value of financial derivative liabilities of S\$74,000 represented 0.01% of the net assets as at 31 December 2018.

The Manager also closely monitors its debt profile to ensure it maintains compliance with the gearing limit established by the Monetary Authority of Singapore ("**MAS**") in the Code of Collective Investment Schemes. The Manager also actively monitors the portfolios to ensure sufficient liquid reserves to fund operations and meet short-term obligations.

The REIT is exposed to fluctuations of the Chinese Renminbi ("**RMB**") against the Singapore Dollar. Our aim is to maximize returns to our Unitholders, and accordingly the Manager monitors currency exchange trends closely and explores methods to mitigate foreign exchange risk. These methods may include foreign exchange hedging on the expected dividends from our China project companies, as well as other measures.

Where feasible, the REIT also adopts a natural hedging by borrowing in RMB. This matches the revenue stream generated from its investment, balancing the interest rate and foreign exchange risk. As at 31 December 2018, about 30% of the Group's borrowings is RMB-denominated.

Compliance Risks

The Manager is subject to multiple laws and regulations. These include the various regulations, notices and guidelines under the purview of MAS, which are applicable to the Manager as a Capital Markets Service Licence holder. Additionally, the Manager complies with the requirements found in the Listing Manual of SGX-ST, the Property Funds Appendix, and the provisions of the REIT's Trust Deed.

In ensuring that it complies with the myriad regulations, the Manager has implemented corporate policies and procedures to provide clear instructions for all staff to abide by. This would minimise the likelihood of contravention of any regulation or rule, ensuring the least disruption to the business activities conducted by the Manager. Further, the Manager ensures all employees are aware of the latest developments in the law through training and attending seminars and briefings conducted by professionals.

Technology Risks

The Manager is aware of the modern-day risks associated with Information Technology. In accordance with the MAS Notice on Technology Risk Management, the Manager conducts periodic reviews of its technology risks, with a view towards minimizing the risk of downtime caused by information technology system failures.