

# ENTERPRISE RISK MANAGEMENT

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

The Board of Directors (the “**Board**”) is responsible for the overall risk strategy and risk governance of BHG Retail 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 (“**ARC**”) in these matters. During the last quarter of every financial year (“**FY**”), the Board through the ARC, reviews the potential risks in the following FY as it reviews the following FY’s budget. This section sets out the information needed by stakeholders to make an informed assessment of the risk management and internal control systems.

In working within the implemented ERM Framework, the Manager is empowered with a sound structure for BHG Retail 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. This section sets out the information needed by stakeholders to make an informed assessment of the risk management and internal control systems.

## ERM FRAMEWORK

The ERM Framework was built on the premise that BHG Retail 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 ERM Framework would be reviewed accordingly and updated immediately.

A review of the ERM Framework was conducted in 2022 and the Board and Manager worked closely with input from Pricewaterhousecoopers

Risk Services Pte. Ltd. to address potential risks from climate change so as to ensure that the ERM Framework remains relevant and is 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 ERM Framework. An internal audit exercise is conducted annually. In 2022, an internal audit was conducted at the REIT’s portfolio property, Hefei Mengchenglu.

In addition, the Manager has established a semi-annual Control Self-Assessment (“**CSA**”) exercise that is undertaken by the Manager. 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 2022

### *Real Estate / Operational Risks*

BHG Retail 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.

### *Investment Risks*

Potential acquisitions are subject to rigorous due diligence, taking into consideration its potential for yield enhancement, long-term sustainability as well as any potential environmental risks, 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. Thereafter, the findings are presented to the Board for consideration.

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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 Trading Limited ("SGX-ST").

## *Environment and Business Interruption Risk*

The Manager is cognisant that unforeseen circumstances may interrupt the business of each portfolio property. These circumstances may include natural disasters due to climate change and global warming, as well as global pandemics.

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. These tests, and the staff and tenants' familiarity with them, were put into play during the COVID-19 outbreak, when safe distancing measures were implemented by local government.

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. In relation to the COVID-19 outbreak, our portfolio properties (i) provided face masks to employees; (ii) set up temperature screening at all entrances; (iii) increased the frequency of the cleaning and disinfecting of facilities and public areas; (iv) limited activities with mass gatherings; and (v) implemented contact tracing procedures to monitor the well-being of employees, tenants and visitors.

## *Financial and Interest Rate Risk*

The Manager ensures that financial market risks are closely monitored 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 2022, the REIT has entered approximately 42% of its offshore loan into interest rate swap transactions.

The Manager 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 on Collective Investment Schemes. The Manager also actively monitors the portfolio to ensure sufficient liquid reserves to fund operations and meet short-term obligations.

BHG Retail REIT is exposed to fluctuations of the Chinese Renminbi ("RMB") against the Singapore

Dollar. Our aim is to maximise 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 Chinese subsidiaries as well as other measures.

Where feasible, BHG Retail 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 2022, about 20% of the REIT'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 Services 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 deed of trust dated 18 November 2015 (as amended and supplemented from time to time). The Manager also actively monitors any environmental related regulations that may affect our properties.

In ensuring that it complies with the myriad of 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 and internal memorandums. The Board is also kept apprised of new rules and regulations affecting the Manager and BHG Retail REIT during Board meetings.

## *Information 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 and MAS Notice on Cyber Hygiene, the Manager conducts periodic reviews of its technology risks, with a view towards minimising the risk of downtime caused by information technology system failures and risk of cyber threat on critical information technology systems.