RISK MANAGEMENT

RISK MANAGEMENT APPROACH AND PHILOSOPHY

Risk Management is an integral part of PARAGON REIT's culture. PARAGON REIT Management Pte Ltd (the "Manager") and the Board of Directors ("Board") are responsible for establishing the overall risk strategy and governance. The Manager advocates a continual and iterative process for enhancing risk awareness.

The current enterprise risk management framework ("ERM") follows a general principle of identification, measurement, monitoring, and mitigation on the different types of risks, where possible. This framework assists the Board and the Manager to manage risks, preserve capital, and maintain resilience during periods of cyclical changes in business conditions. The framework also facilitates effective decision-making with due consideration to 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 through 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 its assets and the interest of stakeholders. 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 PARAGON 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 controls and risk mitigation measures
- Risk management processes are integrated with other processes including budgeting, mid/long term planning, and business development

The key outputs of the Manager's ERM are:

- Defining a common understanding of risk classification and tolerance levels
- Identifying key risks affecting business objectives and strategic plans
- Identifying and evaluating existing controls and developing additional plans required to mitigate risks
- Implementing measures and processes to enable ongoing monitoring and review of risk severity and treatment effectiveness
- Risk management awareness training and workshops
- Continual improvement of risk management capabilities

A robust risk management system is in place to address financial, operational, legal and compliance, technology, as well as environmental and climate risks that are relevant and material to business operations. Periodical internal audit is conducted to check that directions, policies, procedures, and practices are adhered to, and functioning as desired.

FINANCIAL RISKS

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 the 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.

CREDIT RISK

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 the necessary follow-up actions.

INTEREST RATE AND FOREIGN EXCHANGE RISKS

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 proactively manages the financing risk of PARAGON 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 debt maturity profile, cash flow position, and operational requirements to ensure that 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, which takes 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, as well as the restrictions and requirements of the listing manual of the Singapore Exchange Securities Trading Limited, and the provisions of the Trust Deed.

OPERATIONAL RISKS

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The Manager employs relevant policies and Standard Operating Procedures ("SOPs"), that include structured reporting and monitoring processes, to mitigate operational risks and safeguard business sustainability.

A comprehensive Business Continuity Plan ("BCP") is in place to minimise 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 facilitate operational preparedness. The Manager practices risk transfer by procuring relevant insurance policies to mitigate certain financial losses.

The Manager performs annual reviews and updates its business continuity and crisis management plans to take into consideration the implications of any new emerging risks that may potentially result in the disruption of business operations. BCP scenarios are tested periodically. The Manager has established collaborative relationships with tenants and service providers to effectively communicate the additional measures implemented by the Manager, which enables them to be well-equipped to manage the situation in the event of any major adverse incidents.

OUTSOURCING RISK

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 the purposes of reviewing the established key metrics, in order to monitor their performance and agreeing on actions for further improvement. The fees payable to these outsourced parties are structured to include a variable component that is linked to performance, which motivates a greater alignment of interests.

RISK MANAGEMENT

CONDUCT AND FRAUD RISKS

The Manager recognizes that culture is a key driver of conduct, and proactively sets the tone from the top. 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 behaviour, 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.

LEGAL AND COMPLIANCE RISKS

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The Manager takes a resolute stance in compliance, and observes all applicable 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 laws and regulations, counterparty obligations, and all contractual agreements. Quarterly reports on significant legal and compliance matters are submitted to the 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 comply with the Cybersecurity Act and the Personal Data Protection Act 2012 ("PDPA"). Internal policies are regularly updated to align with the latest regulations, which include changes made to the PDPA (effective from February 2021). In Australia, the investment and property managers also have contractual obligations to comply with the Privacy Act 1988.

TECHNOLOGY RISKS

TECHNOLOGY AND CYBER SECURITY RISKS

Information Technology ("IT" or "technology") plays a vital role in the sustainability of the business, and the Manager is fully cognisant of the evolving risks in technology and cyber security. IT system failures may cause downtime in business operations and adversely affect operational efficiency and integrity. The Manager has 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 maintain the efficiency and integrity of these computing resources. In addition, the Manager has established cyber security policies with regular security awareness training and communication for employees.

All IT systems are regularly reviewed to maintain adequate security features 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 in place to provide a systematic off-site back-up of data.

ENVIRONMENTAL AND CLIMATE RISK

The Manager is in the process of formalising an environmental risk management framework that outlines the procedures to identify, assess, treat, monitor, and report potential exposure to climate related risks. The Manager works closely with the Sustainability Committees to embed the established environmental risk management policy, processes, and practices within the overall ERM framework.

In addition, periodic training and workplace announcements are put in place and communicated to employees as part of the organisation's environmental and climate risk awareness initiatives. For further details, please refer to page 74 under the Sustainability Report section.