

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 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 in managing risks, preserving capital, and maintaining 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, appetite 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 strategic, financial, operational, legal and compliance, technology risks that are relevant and material to business operations. Regular horizon scanning is performed to identify emerging risks that may affect the achievement of PARAGON REIT's objectives. Periodical internal and external audits are conducted to check that directions, policies, procedures, and practices are adhered to, and functioning as desired.

STRATEGIC RISKS

Throughout the year, the Board and Management engage in open and constructive debates for furthering the strategic objectives of the Manager and the REIT. The Manager identifies potential risks ahead of time and focusses on investment and asset management efforts to proactively manage the risks for sustainable performance.

INVESTMENT RISK

All investment and divestment proposals are subject to rigorous and disciplined planning, assessments and due diligence processes. Factors such as asset valuation, yield, sustainability and risks are considered and sensitivity analyses are included in each review to assess the impacts of a change in assumptions used. Potential acquisitions and divestments 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 and divestment 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.

REAL ESTATE MARKET RISK

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.

ENVIRONMENTAL, SOCIAL & GOVERNANCE ("ESG") AND CLIMATE RISK

ESG-related issues and climate risks including physical risks (e.g., flooding) and transitions risks (e.g., carbon pricing, changing consumer preferences and regulations, technology shifts) affects the assets directly and indirectly. Strategies are put in place to address these issues and risks and reported to the Board regularly. For more details on PARAGON REIT'S efforts in addressing ESG-related issues and climate risks, refer to the Sustainability Report.

CONCENTRATION RISK

Within PARAGON REIT'S portfolio, there are tenants who take up significant portion of the total Net Lettable Area of the respective assets. Over-reliance on these tenants may impact rental yields. The Manager monitors key tenants' performance and the concentration of these tenants in each asset closely. Where required, the Manager diversifies the tenant mix to provide better experiences to the customers and minimise concentration risks.

FINANCIAL RISKS

CREDIT RISK

All leases are subject to assessment of business proposition including credit risk. 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. Tenants' performances are reviewed continually. 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 RISK

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 ensures that there is access to various sources of funding from banks and capital markets. The Manager also 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.

OPERATIONAL RISKS

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.

RISK MANAGEMENT

ADVERSE EXTERNAL EVENT RISK

Natural and / or man-made adverse events including large-scale outbreaks of infectious diseases, geopolitical conflicts, flooding, and fire can have an impact on PARAGON REIT's assets.

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. The property managers, outsourced service providers and tenants, are involved in periodic drills and table-top exercises to better prepare them for various scenarios. The Manager practises 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

Operational risks associated with offshore investments are reduced through the engagement of reputable outsourced operators with strong localised experience in Australia. In Australia, the Manager appointed investment and property managers for Westfield Marion Shopping Centre and Figtree Grove Shopping Centre.

Regular meetings are conducted to review reports from the respective managers, 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 ensures a greater alignment of interests.

CONDUCT AND FRAUD RISK

The Manager recognises 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.

PROJECT MANAGEMENT RISK

As the Manager embarks on Asset Enhancement Initiatives to deliver long term value to unitholders, budgets, schedules and quality expectations are put in place and closely monitored. Regular updates are provided to the Board and Management on the progress of the projects and any possible delays / overruns.

FACILITIES AND ASSET MAINTENANCE RISK

The Manager recognises the importance of adequate maintenance and refurbishments of PARAGON REIT's facilities and assets to avoid any possible disruptions to the operations, keep up with competition and deliver returns. A preventive maintenance program is in place so that the assets and its facilities are kept in optimal conditions.

LEGAL AND COMPLIANCE RISKS

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. The Manager also leverages on in-house teams and external consultants to scan for updates on changes to laws and regulations. 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. Regular safety reviews have also been put in place.

REGULATORY RISK

The Manager recognises the importance of monitoring the laws and regulations closely to ensure compliance and timely responses to changes in jurisdictions that the Manager operates in. Corporate policies and procedures are regularly updated to reflect changing laws and regulations and regular training and communication are provided to all relevant staff to keep them apprised of updates.

LEGAL RISK

The Manager acknowledges that there may be circumstances where legal dispute may arise in the course of its businesses. Any litigations that are not managed effectively or adequately may result in financial loss / legal consequences. The Manager seeks advice from external consultants and/or lawyers to ensure that any potential issues can be addressed on a timely basis.

DATA CONFIDENTIALITY RISK

In providing an enriched customer experience for shoppers, personal data of shoppers are collected. The Manager ensures that safeguards are put in place to protect all collected data and that all data are only accessible by authorised personnel.

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. In Australia, the investment and property managers also have contractual obligations to comply with the Privacy Act 1988.

TECHNOLOGY RISKS

TECHNOLOGY AND CYBER SECURITY RISK

Information Technology (“**IT**”) and Operational Technology (“**OT**”) play vital roles in the sustainability of the business, and the Manager is cognisant of the evolving risks in technology and cyber security. System failures may cause downtime in business operations and adversely affect operational efficiency and integrity. The Manager has implemented tight controls within the corporate systems to address such threats. In this respect, policies are in place to guide staff on appropriate and acceptable use of technological 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 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, a disaster recovery programme is in place to provide a systematic off-site back-up of data.

TECHNOLOGY INNOVATION RISK

The Manager recognises the need for the adoption of new technology to achieve greater efficiencies and optimisation. The Manager reviews current processes and technology architecture regularly and considers the need to refresh existing systems or to invest in newer technologies. Feasibility studies are conducted prior to the investment and implementation of new systems.