

## **RISK MANAGEMENT FRAMEWORK**

### **1. ARA ENTERPRISE RISK MANAGEMENT FRAMEWORK**

1.1 The ARA Enterprise Risk Management framework (“ERM”) is designed to manage the Company’s risks and its internal control system provides reasonable assurance on safeguarding of assets, maintenance of reliable and proper accounting records, compliance with relevant legislations and against material misstatement of losses.

1.2 The Company’s ERM Framework is approved by the Board and is administered by the Risk Management Committee (the “RMC”), which identifies, evaluates and reports the risks to the Audit Committee. The RMC comprises the Group CEO, Senior Director of Group Finance, Legal & Compliance Director and Head of Group Risk Management & Internal Audit Department (as an independent advisory role).

1.3 The RMC identifies the strategic, operational, financial and compliance risks faced by the various business units and set out the appropriate mitigating actions and monitoring mechanisms to respond to these risks and changes within the Group and the external business environment.

1.4 The Group’s Risk Profiles are reported to the Board every half yearly, to highlight the changes in risk assessment, quantitative and qualitative factors affecting the inherent risk levels and effectiveness of mitigating controls supporting the residual risks, as within the risk appetite approved by the Board.

1.5 The Internal Auditors perform detailed work to evaluate the ERM Framework and the related internal control systems, as part of the internal audit plan approved by the Audit Committee. Any material non-compliance or weakness, including recommendations for improvements, is reported to the Audit Committee.

1.5 The key risks highlighted in the Group’s Risk Profiles include, but not limited to, strategic, human capital, conflict of interests, financial and crisis risks.

### **2. STRATEGIC RISKS**

2.1 The strategic risks relate to sustainable long-term growth in establishing new Real Estate Investment Trusts (“REITs”), Private Real Estate Funds and Real Estate Management Services within the Group. There are mitigating controls put in place to assess the background of business partners, evaluate the feasibility of projects, carry out necessary due diligence on the transactions and assets, as well as obtaining approval from the Board.

### **3. HUMAN CAPITAL RISKS**

3.1 Human capital as a key component for the continuing success and growth of the business, and the Group has established a Succession Plan for all the senior management positions. The suitability of internal successors is assessed by the Remuneration Committee and is benchmarked against external prospects. As part of talent management, the succession planning identifies and develops talents to assume senior positions when they become available, and motivates and retains high potential and performing staff. In addition, efforts are taken to enhance training and development, establish competitive remuneration and rewards based on key performance indicators, support work-life balance and create a healthy workplace.

### **4. CONFLICT OF INTEREST RISKS**

4.1 The Group maintains strict policies and procedures to address any potential conflicts that may arise from its businesses' acquisitions. The Deal Allocation Committee has been established to minimize such conflicts of interest and ensure that an effective process is in place for the allocation of deals among the various REITs and private real estate funds which the Group manages. The Deal Allocation Committee considers the key investment objectives and criteria of each REIT and private real estate fund when reviewing and allocating deals received by the Company as well as deals received directly by the various REITs or private real estate funds.

4.2 In general, the REITs managed by the Group would only invest in core investments within their respective sector(s) and geographical region(s), confined by the regulated leverage ratios. The REITs focus on properties that have stable incomes, high occupancies and increasing distribution yields to Unitholders. These properties offer potential for long-term growth through repositioning, value-add capital expenditure and/or continual leasing strategy.

4.3 In comparison, the private real estate funds managed by the Group invest in opportunistic and strategic investments, which usually entail higher risks and higher risk-adjusted returns. The private real estate funds focus on properties which offer opportunities for re-development, asset enhancement and/or lease restructuring, to achieve their targeted internal rate of returns within the limited fund life.

4.4 All prospective deal information shall be submitted by the respective REITs or private real estate funds to the Head of Group Risk Management & Internal Audit Division to assess whether there is any potential conflict of interest (e.g. overlapping investment objectives and criteria). If the Head of Group Risk Management & Internal Audit Division forms a preliminary view that a potential conflict of interest could arise, the deal will be referred to the Deal Allocation Committee.

4.5 The Deal Allocation Committee further evaluates the deal and determines which REIT or private real estate fund the deal should be allocated to, taking into account circumstances that best fit the investment objectives and criteria of the REITs or private real estate funds. All reviews carried out by the Head of Group Risk Management & Internal Audit Division are documented and submitted to the Deal Allocation Committee regularly and these records are subject to an annual audit by the external international accounting firm which reports to the Audit Committee.

## **5. FINANCIAL RISKS**

5.1 The Group is exposed to credit, liquidity and market risks arising from its business.

5.2 Credit risk is the risk of financial loss if any counterparty fails to meet its contractual obligations. This arises principally from the Group's receivables and financial assets which are monitored on an ongoing basis. These risks are limited as the receivables mainly relate to trade debtors and accrued fees due from REITs and Private Real Estate Funds, whereas the financial assets are placed with regulated financial institutions of high credit quality and ratings.

5.3 Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach is to ensure, as far as possible, sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions in its cash-flow projections. The Group generally has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the serving of its financial obligations. In addition, the Group maintains several lines of revolving credit facilities and overdraft facilities to tap on available funds for its growth.

5.4 Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Group's income or value of its holdings of financial instrument or assets.

5.5 The Group closely monitors its long-term quoted and unquoted financial assets, which relate to strategic units held in listed REITs, open-ended specialist equity fund and seed capital investments. These financial assets are measured at fair values and subsequent changes in their fair values are recognized in the fair value reserves in equity. The Group also receives REIT units from its management fees and these are classified as quoted financial assets held-for-trading. The Group regularly reviews its mark-to-market assessment of these REIT units for appropriate disposal outside the applicable moratorium or black-out periods.

5.6 Exposure to foreign currency risk is monitored on an on-going basis as the Group endeavours to keep the net exposure to an acceptable level. This exposure mainly arises from the management fee

income received in foreign currencies, offset by the contribution of seed capital investments in the same foreign currencies. Where required, the Group enters into forward contracts to hedge its net exposure position.

5.7 The Group's exposure to interest rate risks mainly relates its interest bearing financial assets and debt obligations. The Group manages its interest rate exposure by maintaining a debt portfolio with appropriate fixed and/or floating rates of interests and where applicable, uses interest rate derivatives to hedge its interest rate exposure for specific underlying debt obligations.

## **6. CRISIS RISKS**

6.1 A group-wide Business Continuity Plan ("BCP") has been established to mitigate the risk of interruptions or catastrophic loss to its operations. One of the BCP components includes an Information Technology Disaster Recovery Plan ("IT DRP"), which focuses on continuation of technology infrastructure that is critical to ARA during any unexpected disruptive event.

6.2 The IT DRP contains a documented set of procedures to be followed before, during and after an event of a disaster. The primary objective is to minimize downtime and data loss, while ensuring a level of stability and orderly recovery. The Group carries out periodic exercise to simulate the scenario of a disaster, where participants are relocated to an offsite facility with access to IT systems and restored backup database.