

Enterprise-Wide Risk Management

Enterprise-wide Risk Management (ERM) is an essential part of the business strategy of the Group. We maintain a risk management system to proactively manage risks at the strategic, tactical and operational level to support the achievement of our business objectives and corporate strategies. Through active risk management at all levels, the FPL management (the Management) creates and preserves value for the Group.

The Board of Directors (Board) is responsible for the governance of risks across the Group and ensuring that the Management maintains a sound system of risk management and internal controls to achieve the business objective. It is assisted by the Risk Management Committee (RMC) to oversee the Group's ERM framework, determine the risk appetite and risk strategy, assess the Group's risk profile, material risks, and mitigation plans, as well as to ensure the adequacy and effectiveness of risk management policies and procedures. The RMC comprises members of the Board who meet quarterly to review material risk issues and the mitigating strategies for such risks. All material risks and risk issues are reported to the RMC for review.

The RMC, on behalf of the Board, approves the Group's risk tolerance statements, which set out the nature and extent of the significant risks that the Group is willing to take in achieving our business objectives. The risk tolerance statements are supported by the risk thresholds which have been developed by Management. These thresholds set the risk boundaries in various strategic and operational areas and serve as a guide for Management in their decision making. The risk tolerance status is reviewed and monitored closely by Management. Any risk that has escalated beyond its threshold will be highlighted and addressed and, together with its associated action plan, will be reported to the RMC.

Risk management process

To facilitate a consistent and cohesive approach to ERM, we have developed a risk management framework and process. We adopt a robust risk management framework to maintain a high level of corporate discipline and governance. The risk management process is implemented by Management for the identification and management of risks of the Group. The process consists of risk identification, risk assessment and evaluation, risk treatment, risk monitoring and reporting.

The ERM framework links FPL's risk management process with the Group's strategic/tactical objectives and operations. Risks are identified and assessed, and mitigating measures developed to address and manage those risks. The ERM framework and process are summarised in an ERM policy for employees.

The risk management process is integrated and coordinated across the businesses of the Group. The ERM framework and processes apply to all business units in the Group. The risk ownership lies with the heads of the respective business units who consistently review risks and ensure the control measures are effective. They are responsible for the development, implementation and practice of ERM within the business unit. Emerging risks that have a material impact on the business units are identified, assessed and monitored closely. The risk exposures and potential mitigating measures are tracked in a risk register maintained in a web-based Corporate Risk Scorecard system. Where applicable, Key Risk Indicators are established to provide an early warning signal to monitor risks. Key material risks and their associated mitigating measures are consolidated at the Group level and reported to the RMC quarterly.

The Group proactively manages risks at the operational level. Control self-assessment, which promotes accountability and risk ownership, is implemented for key business processes. We have in place a Comfort Matrix framework, which provides an overview of the mitigating strategies, and assurance processes of key financial, operational, compliance and information technology risks.

An ERM validation is held at Management level annually. At this annual ERM validation, the heads of business units deliberate on key risks and the corresponding mitigating strategies for their business units, providing assurance to the Group Chief Executive Officer and Group Chief Financial Officer that the business units' key risks have been identified and monitored, and that the mitigating measures are effective and adequate. The result of the ERM validation for the financial year ended 30 September 2018 was reported and presented to the RMC and the Board.

We enhance our risk management culture through various risk management activities. Risk awareness briefings are conducted for all levels during staff orientation. Refresher sessions are also organised for existing staff when required. Periodic discussions of risk and risk issues are held at the business unit level where emerging risks are identified and managed.

We seek to improve our risk management processes on an ongoing basis. The Group's risk management system is benchmarked against the market practice. During the financial year, we improved our business continuity management capability by engaging external professional service providers to conduct a business continuity exercise at the Group Corporate level. An improved Business Continuity Management Programme was also rolled out for the Frasers Hospitality business unit where the Crisis Management Plan, which guides the business unit in the event of a business interruption, was enhanced. The business continuity effort is overseen by the Group Business Continuity Management Committee comprising the key heads of departments and business units.

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Key risks

The Management has been actively monitoring the key material risks that affect the Group. Some material risks include:

Country risks (economic, political and regulatory risks)

With diversified international operations and investments, the Group is exposed to developments in major economies and key financial and property markets. The risk of adverse changes in the global economy can reduce profits, result in revaluation losses, affect the Group's ability to sell residential development stock and exit from operations and investments.

Inconsistent and frequent changes in regulatory policies as well as security threats may also result in higher operating and investment costs, loss in productivity and disruptions to business operations.

We adopt a prudent approach in selecting locations for our investment to mitigate these risks. We put measures in place to monitor the markets closely, such as through maintaining good working relationships and engaging with local authorities, business associations and local contacts, and reviewing expert opinions and market indicators, keeping abreast of economic, political and regulatory changes as well as stepping up the crisis preparedness of FPL's properties. Emphasis is placed on regulatory compliance in the Group's operations.

Financial risk

The Group has global operations and has exposure to financial risks such as foreign exchange risk, interest rate risk and liquidity risk. The Group uses derivatives, a mix of fixed and floating rate debt with varying tenors as well as other financial instruments to hedge against foreign exchange and interest rate exposure. Policies and processes are in place to facilitate the monitoring and management of these risks.

To manage liquidity risk, we monitor cash flows and maintains sufficient cash or cash equivalents as well as secures funding through multiple sources to ensure that financing, funding and repayment of debt obligation are fulfilled. The Group's financial risk management is discussed in more detail in Treasury Highlights on pages 90 to 91 and the Notes to the Financial Statements on pages 267 to 274.

Human capital risk

We view our human capital as a key factor for driving growth. As such, talent management, employee engagement, the retention of key personnel and maintenance of a conducive work environment are important to the Group. In view of these considerations, the Human Resources team has developed and implemented effective reward schemes, succession planning, corporate wellness programmes and staff development programmes. Details on the various programmes and initiatives can be found in the Sustainability Report section of the Annual Report on pages 92 to 139.

Fraud and corruption risk

We do not condone any acts of fraud, corruption or bribery by employees in the course of our business activities. The Group has put in place various policies and guidelines, including a Code of Business Conduct and an Anti-bribery policy to guide the employees on business practices, standards and conduct expected while in their employment with the Group. A Whistle-Blowing Policy has also been put in place to provide a clearly defined process and independent feedback channel for employees to report any suspected improprieties in confidence and in good faith, without fear of reprisal. The Audit Committee reviews and ensures that independent investigations and appropriate follow-up actions are carried out. More details can be found in the Corporate Governance section of the Annual Report on pages 158 to 159.

Information technology (IT) risk

The Group places a high priority on information availability, IT governance and IT security. We have put in place group-wide IT policies and procedures to address evolving IT security threats, such as hacking, malware, privileged access, phishing, mobile threats and data-loss. Disaster recovery plans and incident management procedures are developed and tested annually. Measures and considerations have also been taken to enable effective privileged access monitoring, patch management, data security, data protection and safeguard against prolonged service unavailability of critical IT systems. Periodic training is also conducted for new and existing employees to raise IT security awareness. External professional services are engaged to conduct independent vulnerability assessment and penetration tests to further strengthen the IT systems.

Environmental, health & safety (EHS) risks

We place importance in managing EHS risks in our international operations. We have put in place an EHS policy and EHS management systems in key operation areas to manage the risks. We have achieved OHSAS 18001 (Occupational Health & Safety) and ISO 14001 (Environment) certification for our key operations. The Singapore Retail Mall Management has been certified OHSAS 18001, while the Singapore Office Building Management has achieved the ISO 14001, OHSAS 18001 and ISO 50001 (Energy) certification. In FY18, FH started implementing an EHS management system in accordance to the ISO 14001 and ISO 45001 (updated standard on Occupational Health & Safety) certification in its Singapore properties. Frasers Property Australia's key operations have been certified ISO 14001 and AS/NZS 4801 (Australia and New Zealand Standard for Occupational Health & Safety). We will continue to extend the coverage of our EHS management systems to a wider scope of operations in the future.

FPL sets targets in reducing greenhouse gas emission, energy usage and water consumption within our investment portfolio. More details can be found in the Sustainability Report section of the Annual Report on pages 92 to 139.