

RISK MANAGEMENT

ENTERPRISE-WIDE RISK MANAGEMENT

Enterprise-wide risk management (ERM) is an integral part of business activities of FCOT. The objective of enterprise-wide risk management is to identify key risks and put in place controls, and to allocate appropriate resources to proactively manage the identified risks. The Board of Directors is responsible for determining the overall risk strategy and ensuring that the Manager implements sound risk management and internal control practices. The Board of Directors is supported by the Audit, Risk and Compliance Committee (ARC Committee). The Manager maintains a risk management system to proactively manage risks to support the achievement of FCOT's business objectives.

Enterprise-wide risk reporting is facilitated through a web-based Corporate Risk Scorecard system which enables the reporting of risks and risk status on a common platform in a consistent and cohesive manner. The ERM framework covers key areas such as investment, financial management and operating activities. Risks are reported and monitored using a Risk Scorecard which captures risks, assessment of likelihood and impact mitigating measures, timeline for action items and risk ratings. Where applicable, Key Risk Indicators (KRIs) are established to monitor risks. The Risk Scorecard and KRIs are presented in the form of a Key Risk Dashboard and reviewed by the Management and ARC Committee on a regular basis.

The Board approves risk tolerance statements which set out the nature and extent of significant risks which the Manager is willing to take in achieving its strategic objectives in respect of FCOT. The risk tolerance statements are reviewed periodically.

At the end of the financial year, an annual ERM validation exercise is held where Management provide assurance to the ARC Committee that the system of risk management is adequate and effective as at the end of the financial year to address risks in certain key areas which are considered relevant and material to the operations.

KEY RISKS IN FY2016

Investment Risk

All investment proposals are evaluated against a comprehensive set of investment criteria and due diligence is carried out to mitigate potential investment risks. The evaluation process for all investment activities includes consideration of the location, quality of tenants, building condition, environmental impact, competitive landscape, investment return, long-term sustainability and growth potential.

Regulatory Risks

To mitigate the risk of non-compliance with applicable laws and regulations and any changes thereof, processes are in place to monitor compliance with relevant policies and procedures, and staff are updated regularly on latest developments in relevant laws and regulations through training and attending talks and briefings.

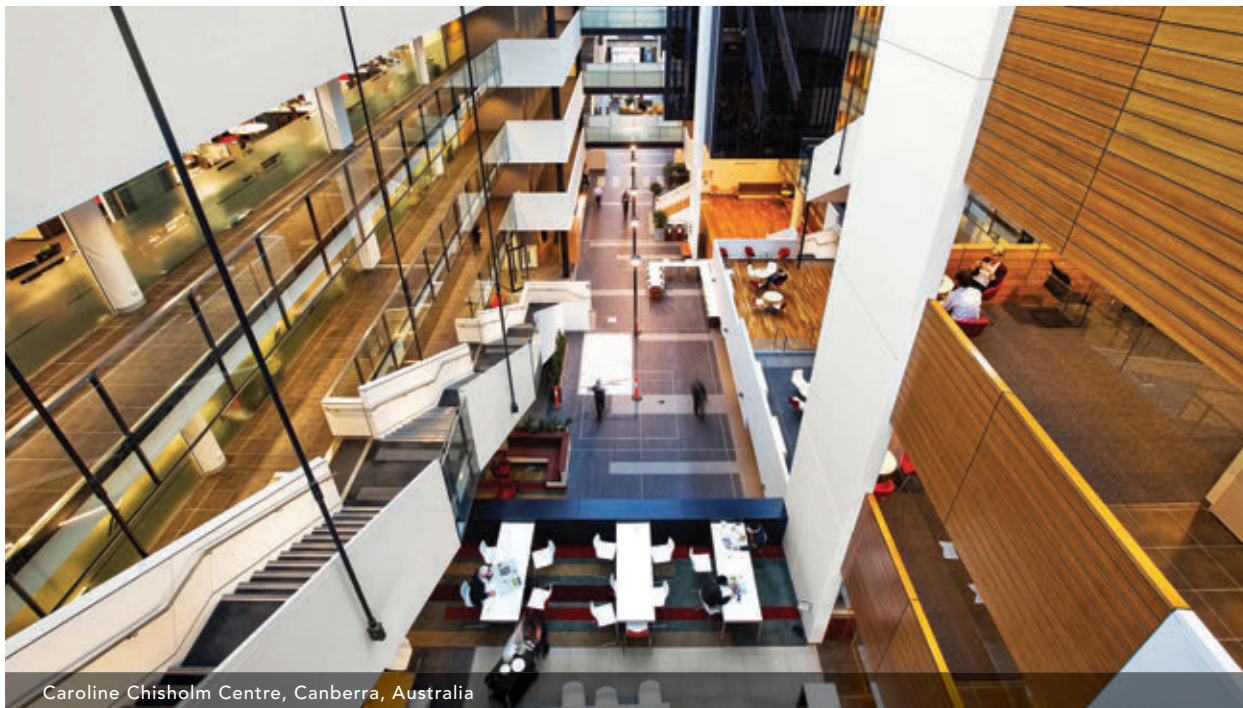
Interest Rate Risk

The Manager proactively manages interest rate risk by adopting a policy of fixing interest rates for a portion of its outstanding borrowings via the use of derivative financial instruments or other suitable financial products. Interest rate derivative instruments are used for the purpose of hedging interest rate risk and managing the portfolio of fixed and floating rate.

Funding and Liquidity Risks

The Manager actively manages the Trust's capital structure. It ensures that the gearing of the Trust is at a prudent level and adheres to the gearing ratio requirements under the relevant loan facility agreements and Property Funds Appendix of the Code on Collective Investment Schemes issued by the Monetary Authority of Singapore. Refinancing risk is also monitored, taking into account the concentration of debt maturity profile and available sources of funding. The debt maturities of the loan facilities are spread out to mitigate financing risks. In addition, a sufficient level of working capital is maintained to meet the requirements of the Trust's operations.

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Foreign Currency Risk

The Trust is exposed to foreign exchange risk as a result of its investments in Australia. It is the Trust's policy to hedge anticipated foreign currency income net of anticipated payments required in the same currency, from its overseas investments approximately six to nine months forward by using appropriate foreign currency financial instruments. FCOT uses these instruments solely for hedging actual underlying foreign exchange requirements in accordance with hedging limits set by the ARC Committee and Board and does not engage in trading of foreign exchange derivatives. A portion of the investment in overseas assets is hedged naturally to the extent that related borrowings are taken up in the relevant foreign currency. The net positions of the foreign exchange risk of investments in overseas assets are not hedged as such investments are long term in nature.

Operational Risks

FCOT has established and strictly adheres to a set of standard operating procedures designed to identify, monitor, manage and report operational risks associated with the day-to-day management and maintenance of the Trust's properties. These include actively managing lease renewals and new leases to minimise rental void, as well as monitoring rental arrears and property expenses. The Manager practises prudent lease management to prevent disproportionate levels of vacancy in any one year by staggering the lease terms of properties within its portfolio.

Insurances are in place to mitigate losses to assets and business due to unforeseen events. The operating procedures are also reviewed regularly and business continuity plans tested to ensure their continued relevance and effectiveness.

Credit Risk

Credit risk is the potential financial loss resulting from failure of tenants to fulfill their payment obligations. In order to mitigate credit risk, credit evaluations are performed before the lease agreements are entered into and security deposits are collected from tenants. Arrears from tenants are monitored on an ongoing basis.

Fraud Risk

Whistle blowing policy and purchasing/procurement approval process and procedures are in place to mitigate fraud risk. These are subject to regular internal audit reviews scheduled based on the internal audit work plans approved by the ARC Committee.

Human Capital Risk

The Manager has in place a career planning and development system and conducts regular remuneration and benefits benchmarking to attract and retain appropriate talent for the business. Regular training is also provided to upgrade the skills of the staff.