

Risk Management System

1) Disclose the following:

(a) Overall risk management philosophy of the company;

SMPHI is committed to protect and preserve its ability to achieve its vision and mission by ensuring that its assets, both tangible and intangible, are protected against damage and loss. As such, it has implemented a program of risk management through the identification, analysis and control of risks, which can most impact on the Company's ability to pursue its approved strategy.

SMPHI recognizes that risk taking is a necessary part of conducting business. In the context of realizing SMPHI's strategic growth objectives, failure is an accepted part of risk taking, as long as risks have been properly assessed and managed.

(b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof;

The Board of Directors, through the Risk Oversight Committee, reviewed the Company's risk management system and found the same to be effective and adequate.

(c) Period covered by the review;

Year 2018

(d) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness; and

The risk management system is reviewed on an annual basis. Effectiveness of the system is evaluated based on number of risks identified, risks mitigated and risks monitored.

(e) Where no review was conducted during the year, an explanation why not.

Not applicable.

2) Risk Policy

(a) Company

Give a general description of the company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

SM Prime is covered by SM Group's Risk Management Policy set out in the next section.

Risk Exposure	Risk Management Policy	Objective
Strategic Risk	SM Prime shall ensure sustainable achievement of strategic objectives.	To assure long-term success and enhance shareholder's value
Safety and Security Risk	SM Prime shall prioritize safety and security in all its properties.	To protect the health, safety and welfare of its employees and the people it serves.
Property Damage and Business Disruption Risks	SM Prime shall ensure the disaster resiliency of its assets.	To protect its property, assets and other resources.
Information Security Risks	SM Prime shall ensure the confidentiality, integrity and availability of its information systems and infrastructure.	To protect its property, assets and other resources.
Process Risks	SM Prime will seek to reduce or control risks that affect the quality of service delivery or delivery of its priorities.	To maintain the quality of its services, which affect its reputation and good standing in the wider community.
Financial Risks	SM Prime will seek to reduce or control risks that would have significant financial consequences or affect shareholder confidence.	To protect its ability and capability to deliver sustainable growth and increase shareholder value.
Regulatory Compliance Risk	SM Prime shall comply with all applicable laws in the countries, districts, and communities in which it operates.	To comply with applicable laws, rules and regulations.

(b) Group

Give a general description of the Group's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
<p>The following mother risk management policy applies to all the subsidiaries of the Group:</p> <ul style="list-style-type: none"> (i) Establish a culture of disclosing, evaluating and managing risks, from the Board and throughout the organization toward achieving goals and objectives. (ii) To protect and preserve: <ul style="list-style-type: none"> • our employees' and clients' safety and welfare • the value and condition of properties and assets • our local and global reputation (iii) To align risk appetite and strategy. <p>The Enterprise Risk Management Committee (ERM) has been set up to execute the risk mitigation strategies and programs that have been approved at the Risk Oversight Committee of the Board. The ERM has been established in each of the subsidiaries including the holding company. The Risk Management Department at the holding company coordinates the launch and roll-out program of the ERM and in standardizing the program across companies.</p>		

(c) Minority Shareholders

Indicate the principal risk of the exercise of controlling shareholders' voting power.

Risk to Minority Shareholders
<p>Listed are the generally accepted risk to minority shareholders of family-owned corporations in the Philippines:</p> <ul style="list-style-type: none"> • Majority shareholders may dominate major Company decisions • Lack of transparency on the actions and decisions of majority shareholders • Abusive and inequitable conduct on the part of majority shareholders • Rights of minority shareholders may not be upheld and protected • Conflict of interest situations may arise on some transactions <p>The Company adopts certain measures that ensure that the aforementioned risks are mitigated, such as cumulative voting. In addition, minority shareholders have the right to propose holding of a meeting, propose items in the agenda of the meeting, access information for which the Management is accountable for and ratify Board</p>

approved material RPTs. Moreover, a director shall not be removed without cause if it will deny minority shareholders representation in the Board.

Further, the Company has a Conflict of Interest Policy where all directors and employees are prohibited from engaging in transactions that result in conflicts of interest and are mandated to promptly disclose actual or perceived conflicts of interest, such as acceptance of gifts, interest in businesses of competitors, participation in other organization or activities and close personal relationships in the Company or its affiliates and subsidiaries. Conflicted directors are required to inhibit themselves from participating in board meetings and are specifically identified in the Company's Definitive Information Statement submitted to the SEC.

3) Control System Set Up

(a) Company

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
Safety and Security Risk	Annual audit by third parties (one for safety and another for security)	<p>The Customer Relations Service Department is responsible for maintaining the safety and security of all SM Malls through implementation of access control system. Department personnel are also trained to respond to safety and security incidents.</p> <p>Further, the Company ensures proper maintenance of facilities to minimize impact of physical security risks which may affect its operations.</p> <p>Other than this, regular conduct of Mall risk review, being performed by third party, aims to assess the malls' risk and hazard potentials particularly in terms of safety and security. This involves review on procedures management, physical management and claims management.</p>

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
		<p>On the other hand, malls also undergo the Annual Security Audit which is also being performed by an independent party. This audit aims to (1) assess the effectiveness and efficiency of the security measures of the facility, (2) measure security compliance and recommend solutions to compliance deficiencies, and (3) identify improvements in security. The security audit covers assessment of physical security, communication, document and information security, emergency response capability, vital installations, security equipment and night inspection reviews.</p>
<p>Property Damage and Business Disruption Risk</p>	<p>Business process reviews, business impact assessment</p>	<p>SM Prime continues to improve its Business Continuity Management System (BCMS) through implementation of data back-up procedures to ensure availability of critical resources.</p> <p>The Company continues to roll-out its BCMS program for all its Malls. Malls are subjected to BCMS internal audit to ensure that the program is adequate to prevent a business failure and to ensure continuity of mall operations during a disruption.</p> <p>Apart from the implementation of BCMS, disaster recovery programs are also in place. This includes, among others, the establishment of recovery sites and the conduct of internal audit to ascertain the availability and resiliency of hosted systems and applications.</p> <p>SM Prime has also taken measures to optimize operations and to include disaster resilience in the design of its buildings to minimize vulnerability, better safeguard physical assets, and reduce recovery expense.</p>

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
		<p>Further, the Company promotes proactive risk reduction/risk management measures such as, but not limited to, conduct of periodic engineering equipment maintenance, system redundancies, etc.</p>
<p>Information Security and Information Technology Risks</p>	<p>Vulnerability assessment and penetration testing, incident monitoring</p>	<p>The Information Security Department monitors compliance of the Company with its Information Security Policy and is responsible in responding to various incidents of information security.</p> <p>The Company annually conducts Information Security Awareness and Cyber Security Risk Management trainings across the Group to address human factor in cyber security management.</p> <p>In terms of Cybersecurity Risks, SM Prime has also implemented SIEM – a tool which collects logs from various network component into a central log management system. This enables the Company to respond to cyber security threats in a faster turnaround time.</p> <p>Further, the Company has implemented Endpoint Detection and Response (EDR) that allows detecting, investigating, monitoring and responding to advanced issues/security threats.</p> <p>In relation to data privacy, SM Prime ensures that adequate control measures are in place to protect the confidentiality, integrity, and availability of all physical and electronic information assets of the Company to make certain that regulatory and operational requirements are satisfied.</p> <p>For the Company's websites, these are protected by public SSL</p>

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
		<p>certificate for encryption and servers are protected by a next gen firewall and web application firewall. Further, website vulnerability scanning is regularly performed.</p>
Environmental Risk	Regular reporting of the group's sustainability road map and progress	<p>SM Prime is committed to protect the environment where it operates by implementing effective and efficient resource utilization measures in its daily operations.</p> <p>SM reduces its consumption, recycles its water and wastes and harnesses renewable sources of energy.</p> <p>SM Prime's energy saving initiatives include the conversion from Compact Fluorescent Lamp (CFL) to Light Emitting Diode (LED) while installing alternating lighting fixtures in hallways.</p> <p>SM Prime also implements daily water recycling through the Sewage Treatment Plants (STPs). The system recycles used potable water to become non-potable source of water for the business units cooling towers, comfort room flushing, grounds keeping and even irrigation.</p> <p>Further, in terms of solid waste management, there are various programs being implemented by the business units such as tenant solid waste management programs and the Trash to Cash. The Trash to Cash is a monthly recycling market in SM Supermalls held every first Friday and Saturday participated in by customers and the rest of the community.</p>
Economic Risk	Financial reporting analysis, industries and market research	The Company strives to maintain competitive in the industry by focusing on innovative developments and expanding

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
		<p>market share while maintaining a customer-centric approach.</p> <p>Diversification of target markets to minimize exposure and building of rapport and relationship with local and national bodies are also undertaken to address market instability and uncertainty of local and national policies.</p> <p>In addressing inflation, the Company's internal engineering group performs weekly construction review meeting, ensures continuous research for new materials, technologies and methodologies, implements owner-supplied materials, continuous strong partnership with suppliers, phasing of project developments to manage the cash flow etc.</p>
Social Risk	Customer satisfaction surveys, social media communications, demographic analysis	<p>The Company promotes equal opportunities for persons with special needs, senior citizens, women and indigenous people.</p> <p>Further, the Company is committed to providing quality real estate and services. All business partners (suppliers, contractors, service providers, etc.) are screened based on criteria that emphasizes quality of service, cost efficiency, moral standing and compliance with related laws. SM Prime engages the services of local suppliers for each mall in both the Philippines and China.</p>
Operational / Process Risk	Business process reviews	<p>The Business Process Management Team reviews business processes and initiates the creation of tools that enhance operational efficiency.</p> <p>SM Prime adopts globally recognized quality and standards, which drive operational excellence</p>

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
		<p>through revenue and expense management.</p> <p>The Company continues to improve on its business processes to ensure operational efficiency of all Business Units.</p>
Financial Risk	Regular monitoring of interest and forex rates, financial ratios and aging of accounts receivables.	<p>Interest rate risk: The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, it enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount.</p> <p>Foreign currency risk: The Company enters into foreign currency swap contracts, cross-currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options aimed at reducing and/ or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flow.</p> <p>Liquidity Risk: To cover its financing requirements, the Company intends to use internally generated funds and proceeds from debt and equity issues. The Company regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans and debt capital and equity market issues.</p> <p>Credit risk: The Company trades only with recognized, creditworthy related and third parties. It is the</p>

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
		<p>Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on a regular basis which aims to reduce the Company's exposure to bad debts at a minimum level. Given the Company's diverse base of customers, it is not exposed to large concentrations of credit risk.</p> <p>Equity Price risk: Management monitors the equity securities in its investment portfolio based on market expectations. Material equity investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.</p> <p>Capital Management risk: The Company manages its capital structure and may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares. Also, the Company monitors capital through the use of gearing ratio.</p>
Regulatory Compliance Risk	Compliance monitoring and reporting	<p>Corporate Compliance Group is responsible for monitoring compliance with mall permits and licenses, environmental, and other external regulations.</p> <p>The Company has developed a permits handbook for malls and automated one-time and yearly government permits monitoring system.</p> <p>Further, the Company conducts regular employee awareness and mandatory compliance to Code of Ethics, Data Privacy Act and other external regulations through e-Learning modules.</p>

(b) Group

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
The holding company provides down-line policy support and coordination to the subsidiaries and affiliates with regard to Corporate Governance, Risk Management, Finance, Internal Audit, Investor Relations, Human Resources, Compliance, Legal matters in the previous item.		

(c) Committee

Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanisms, and give details of its functions:

Committee/Unit	Control Mechanism	Details of its Functions
Audit Committee	The following functionally reports to the Audit Committee: <ul style="list-style-type: none">• Chief Audit Executive• Compliance Officer	The Committee directly interfaces with the internal and external auditors in the conduct of their duties and responsibilities. Its mandate includes the review of the Company's financial reports and subsequent recommendation to the Board for approval. The Committee also reviews the Company's internal control systems, its audit plans and auditing processes.
Risk Oversight Committee	The following functionally reports to the ROC: <ul style="list-style-type: none">• Chief Risk Officer	The Committee assesses the effectiveness of the Company's risk management system in the mitigation of financial and non-financial risks.

Committee/Unit	Control Mechanism	Details of its Functions
Executive Committee	Has all the power and authority of the Board in the governance, management and direction of the business and affairs of the Company.	The Committee provides oversight in the assessment of impact of risks on the strategic and long-term goals of the Company.
Management Committee	Has overall management control over departments and instrumentalities of the Company.	The Committee ensures the achievement of goals and strategies set by the Board.
Whistleblowing Committee	A management committee that handles whistleblower cases.	Upon receipt of an Incident Report, the Committee conducts an investigation on its merit, subject to due process and applicable penalties and sanctions thereafter. A compilation of concluded reports is periodically presented to the Audit and Risk Oversight Committees.
Risk Oversight Management Committee	Composed of all the Risk Owners (Department Heads) and chaired by the Chief Risk Officer.	Updates the Risk Registers and monitors execution of action plans to mitigate exposures.