CIPUTRA

RISK MANAGEMENT

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Risk Management

Risk management is a culture in which the processes and the structures are directed to manage efficient management towards potential opportunities and adverse impacts. Risk management is implemented through a systematic, integrated, optimal, and sustainable management system. The procedures of risk management are commenced by risk identification process aims to identify various risk factors that may arise and hamper the operational and the managerial processes of the Company. The following step is the risk control that is reflected in the implementation of risk management. The Company undertakes necessary efforts to minimize the possibilities of risks as well as corrective efforts to mitigate the negative implications of such risks. Risk control efforts will be done sustainably to prevent significant loss of the Company’s value while maintaining competitiveness.

Risk Management Implementation

In order to improve the effectiveness of the risk management of the Company, the Board of Directors applies a multi-faceted approach to assess risks in an integrated manner. Therefore, the risk management system implemented in the Company is Enterprise Risk Management (ERM), which is a process for managing firm-wide risks that cover various ranges of risks, location, and business activities. The scope of risk management in the Company covers the business segment of residential/housing, malls, hotels, apartments, offices, golf, waterpark and hospitals.

In performing the risk management function, the Company has developed guidelines that suit the characteristics and the needs of the Company as well as in-line with the value creation processes for the stakeholders. The Company is also continuously updating its risk management framework with standards that refer to international risk management standards of ISO 31000.

To perform the function of risk management, the Company has a Risk Management Unit function intended to:

1. Assist the management in building an ERM framework in accordance with the organization structure and the necessity of each business units;
2. Have a significant role in conducting consolidation and main reporting of risks identified across business units to the Board of Directors;
3. Communicate strategic risks that require the attention of the Board of Directors across all business units;
4. Act as a facilitator in risk management by providing input on the risk management, the risk profile supervision and the effectiveness of the risks mitigation plan established by each business units.

The Company is committed to improve the risk management implemented in the Company in order to enhance the effectiveness of the reporting, to maintain the continuity of the mitigation process as well as to monitor the risk level. The improvement of the Company’s risk management system may also support the effectiveness of decision making made by the management across business units.

Risk Profile encountered by the Company

The Company's risk profiles are categorized into two main categories, namely strategic risks (reputation, regulatory compliance, financial, etc.) and operational risks (human resources, information technology, business processes and SOPs, etc.). The arrangement of risk profiling is conducted through a *bottom-up* approach from the business units and refined by feedbacks (*top-down*) from the Board of Directors. Monitoring towards the implementation of risk profile mitigation is also carried out periodically.

There are four types of risks encountered by the Company and shall be managed properly. The four types of risks mentioned include: credit risk, liquidity risk, foreign exchange risk, and interest rate risk. The explanations of these risks are as follow:

1. Credit Risk
   Credit risk is the risk in which one of the parties related to financial instruments is failed to fulfill its obligations and cause the other parties experiencing financial loss. Credit risk encountered by the Business Group comes from operating activities (mainly from trade receivables from third parties) and from financing activities, including bank accounts and time deposits.
2. Liquidity Risk
   Liquidity risk is defined as the risk in which the cash flow position of the Business Group indicates that the short-term income does not adequately cover short-term expenditures.
3. Foreign exchange risk
   Foreign exchange risk is the risk in which the fair value or the future cash flows of the financial instruments may fluctuate due to the changes in the currency rates. The Business Group encounters the fluctuations in currency rates primarily through its cash and cash equivalents.
4. Interest rate risk
   Interest rate risk is the risk in which the fair value or future cash flows of the financial instruments may fluctuate due to the changes in the market interest rates. The Business Group encounters the risk of changes in the market interest rates primarily through its banks debts that are imposed floating interest rates.

Risk Management Efforts

In managing the risks encountered, the Company conducts identification by listing the risks encountered and developing risks mitigation plans. Based on the identification conducted, the Company calculates the risks values, both inherent risk value (before mitigation) as well as residual risk value (after mitigation).

The realization of the risk mitigation plan will be monitored and reported every three months to conduct the recalculation of the residual risk value afterwards. The effectiveness level of risk management may be measured through the downgrade of the inherent risk value (before mitigation) to become the residual risk value (after mitigation).

Disclaimer

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