

RISK MANAGEMENT

Effective risk management is key to ensuring that the Group achieves its strategic objectives and protects its reputation, market position and financial strength. The Company itself and its operating companies follow the Group's Enterprise Risk Management (ERM) policy. The ERM policy requires identification, assessment, management, monitoring and reporting of current and emerging risks.

Group Risk Governance Structure

The Board has ultimate responsibility for risk management, overseeing its design and implementation. The Board is supported by the Audit Committee.

The Group has adopted the three lines of defence model of risk governance. The model is designed to minimise conflicts of interest and ensure independent oversight of risk management by the Board. The Group's enterprise risk management framework is aligned with international standards such as ISO 31000.

In the first line, the management of each operating company identifies, analyses and reports on the risks for which it is responsible. Risks are mitigated and, where practicable and economically viable, eliminated. Where risks cannot be eliminated, the related economic returns are required to reflect the risk.

The first line is supported by a number of Group functional committees. For financial risks, the Finance Committee determines the parameters within which financial risks are managed and oversees the management by the operating companies of financial risks within those parameters. For non-financial risks, functional committees such as IT, Legal, HR, Sustainability and Government Affairs Committees oversee operating company activities including risk mitigation. Senior Group and divisional management are members of these functional committees.

The second line supports the first line and provides assurance to the Board that all key risks are being managed effectively. There are two second line risk management committees at the Group level: they are the Group Risk Management Committee (GRMC) and the Swire Pacific Risk Management Committee (SPACRMC).

GRMC oversees the management of non-financial risks at Group and operating company levels. It reports to the Audit Committee. GRMC comprises the Finance Director, an Executive Director, the Staff Director, the Group General Counsel, the Chief Risk Officer and heads of operating businesses. GRMC (i) regularly reviews the Group's risk profile, (ii) oversees the management of major risks at Group and operating company levels, (iii) identifies emerging risks and potential sources of future risk and (iv) analyses risk events which materialise, with a view to their resolution and to learning from them.

In relation to risks having a Group dimension, GRMC is supported by risk forums in areas of human resources, health and safety, IT, data and technology, government, regulatory and legal as well as environment and sustainable development. In relation to risks not having a Group dimension, GRMC is supported by second line bodies in the operating companies.

SPACRMC oversees risks specific to the Company itself, identifies risks which have a Group dimension and proposes approaches to the management of such risks to GRMC.

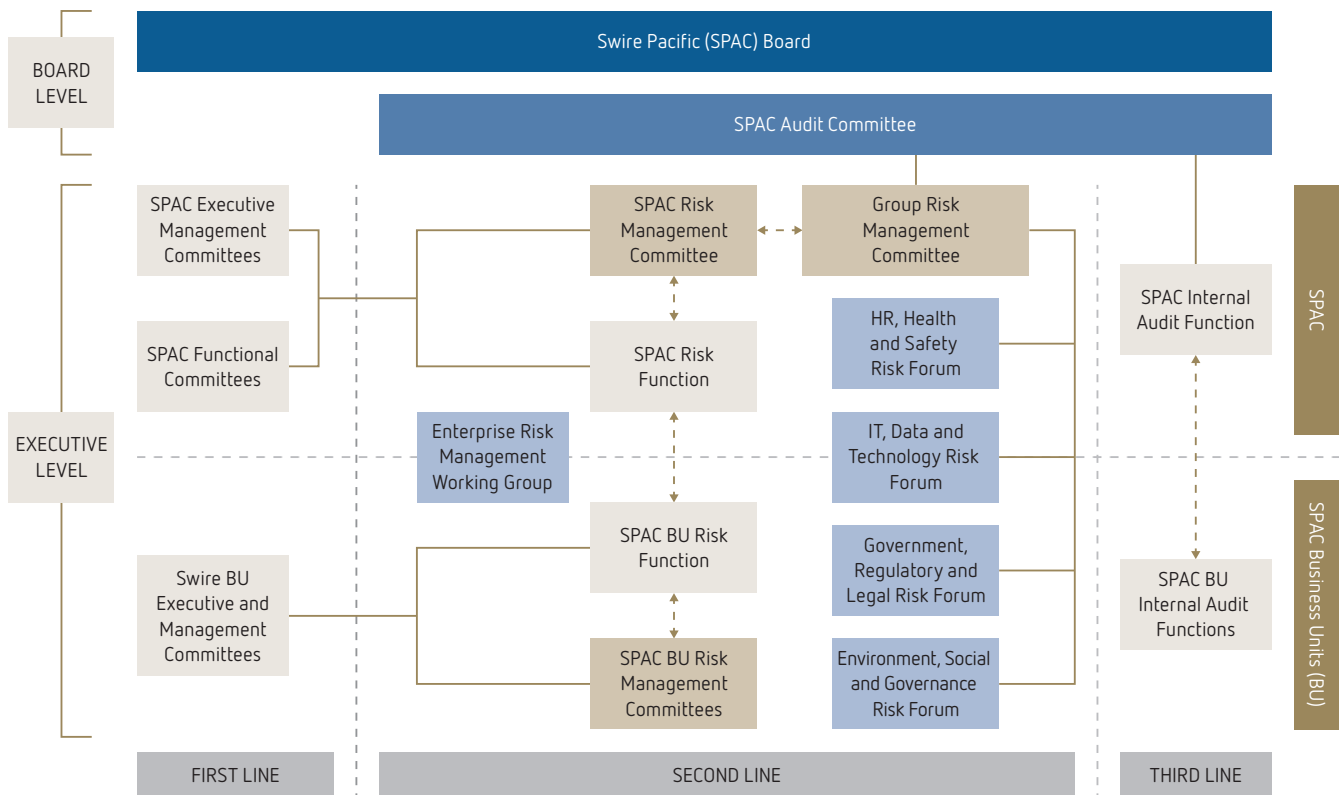
The Finance Committee, GRMC and SPACRMC are chaired by the Finance Director, who is supported by the Chief Risk Officer.

The third line is supported by the Group Internal Audit Department. The Group's Internal Audit provides independent and objective assurance that the risk management processes are implemented properly and operating effectively and that the risks which could impact our ability to achieve our business objectives are being properly identified, assessed and mitigated.

The boards and management of the operating companies are responsible for the management of risk at those companies. Risk management governance varies between operating companies with some having dedicated board and executive risk committees, while others manage risks through their respective audit or executive management committees.

The risk structure is shown below.

Risk Governance Structure



Group ERM Process

The operating companies have a common approach to ERM. It involves:

- **Identification:** Risks are identified and categorised by reference to a common risk classification.
- **Assessment:** The identified risks are regularly assessed by senior executives based on their potential financial and non-financial impact (including reputation, regulatory, environmental etc.), and on the vulnerabilities associated with them. The assessment has regard to effectiveness of internal controls, readiness to respond, and the extent to which the risks can be mitigated.
- **Mitigation:** Designated risk owners are responsible for mitigating the risk and implementing agreed action plans.

Risks considered to have a Group dimension will be discussed by GRMC, and, where appropriate, by the Audit Committee and the Board. Operating companies mitigate and monitor these risks in their own businesses.

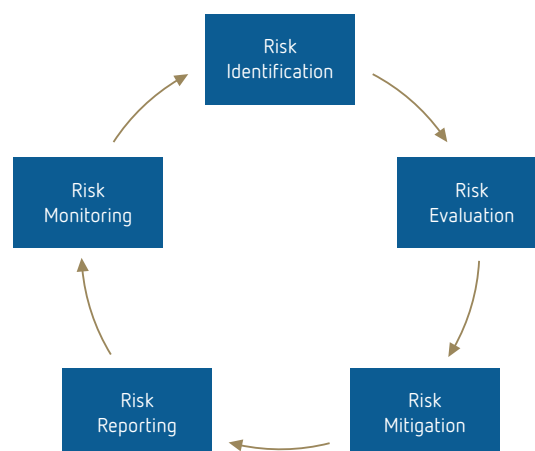
The risk forums oversee the risks within their remit that are considered material to the Group. They advise GRMC on emerging risks which may affect the Group, analyse risk events that have materialised and develop best practices for managing those risks.

GRMC reviews Group and divisional risk registers and considers how effectively risks are being managed. It issues policies to the operating companies and promotes risk culture in the Group. The Board may also identify risks relevant to the Group's businesses, which will be passed to GRMC and the relevant operating companies for incorporation into their risk registers and further handling.

The ERM process involves a "top down and bottom up" approach. The Board provides guidance on its risk priorities and the operating companies assess their own risks. All of this is reported to GRMC and consolidated into a Group risk register, which is reviewed by the Audit Committee and the Board.

Risk management is an integral part of business management:

- Strategic planning is informed by the risk identification process
- Improving the risk profile is part of budgeting and planning
- Action plans are included in performance management
- Changes in risk profile are included in management reporting
- A risk assessment is performed during due diligence on major investments.



Key Risk Management Focus Areas

The Group is exposed to a broad range of risks. The following table deals with the current key areas of focus. Significant risks specific to the operating companies are included in their respective risk registers.

Key Focus Areas and Risk Description	Risk Trend	Mitigation
<p>Economic slowdown</p> <p>A global economic slowdown that may lead to a substantial decline in business activities, revenue and profit.</p>	NEW	<ul style="list-style-type: none"> – Close monitoring of financial markets and forecasts, and impact on the Group's financial risk exposures. – Regular dialogue with banks on financial risk mitigation strategies and market trends. – More frequent and ad hoc review of financial risk management strategies and policies at the Finance Committee. – Regular review of funding plans and cash flow projections. – Diversification of funding sources and increased material adverse business environment liquidity buffer. – Foreign exchange risk mitigation strategies, including increased RMB funding to match Chinese Mainland assets and cash flows.
<p>Business Environment Risk</p> <p>The business environment risk associated with Hong Kong's continual adaption to the evolving global dynamics and the ability to leverage its strengths to maintain its position as an international financial and aviation hub.</p>	↔	<ul style="list-style-type: none"> – Regular review of strategy and investments by the Board. – Strategic diversification of business interests with focus in the Chinese Mainland and South East Asia. – Enhancing corporate affairs capabilities and reinforcing relationships with government in order to contribute to public policy development. – Continual integration into Greater Bay Area development.
<p>Geopolitical risk</p> <p>Disruption to our businesses and operations caused by international trade and economic sanctions.</p>	↔	<ul style="list-style-type: none"> – Monitoring of news media reports, trends and prevailing public and government opinions. – Having crisis management and business continuity plans in place. – Managing relationships with key third parties. – Regular review of capital allocation of existing portfolio and potential markets.
<p>Cybersecurity and data protection</p> <p>Risk of IT systems being attacked leading to material business disruption, data and regulatory breaches and reputational damage.</p>	↓	<ul style="list-style-type: none"> – Having appropriate policies (including relating to personal data), training programmes and penetration testing in place. – Adoption of NIST cybersecurity maturity standard. – Dedicated governance including a GRMC risk forum to oversee IT, data and technology risks and to recommend best practice. – Using external service providers for cybersecurity matters and system testing. – Having cyber incident response plans in place.

Key Focus Areas and Risk Description	Risk Trend	Mitigation
<p>People and culture</p> <p>Changes in the political, economic and social environment resulting in labour shortages and uncompetitive employment proposition, work practices etc., leading to an inability to retain talents.</p>	↔	<ul style="list-style-type: none"> – Having in place policies and processes relating to recruitment, performance appraisal, learning and development, succession planning, staff wellbeing, diversity and inclusion, and compensation and benefits. – Developing digital capabilities by hiring appropriate staff and providing up-skill training for existing staff. – Hiring external senior management where appropriate and providing employees with high potential a fast track for promotion.
<p>Greenwashing</p> <p>The reputational risk associated with any public sustainability claims being perceived as not well-substantiated, or our ESG performance and ESG targets being misaligned.</p>	↓	<ul style="list-style-type: none"> – Clearly articulated and detailed short/ medium-term and long-term ESG targets. – Dedicated governance including a GRMC risk forum to oversee ESG performance. – Development of Group climate transition plan. – Performance against targets included in management reporting.
<p>Crisis management</p> <p>Failure to respond promptly and effectively to unexpected and/or high impact events which could potentially damage the Group's reputation.</p>	↓	<ul style="list-style-type: none"> – Having an escalation and reporting protocol in place. – Regularly updating and testing crisis management and business continuity plans. – Bringing in specialist resources as required.
<p>Portfolio discipline</p> <p>Insufficient planning and execution of portfolio management activities resulting in the Group's current and prospective risk return profile being adversely affected.</p>	↔	<ul style="list-style-type: none"> – Having in place 10-year capital budgets. Consideration by the Board and management of the resulting make-up of the portfolio and of risks and alternatives. – Having in place formal processes for investment approval, including an investment committee. – Conducting risk and know-your-partner assessments of entities considered for investment and proposed joint venture partners. – Evaluating investments after they have been made. – Strengthening internal transaction execution capability.
<p>Climate change</p> <p>Physical risks to people and property increasing as a result of climate change leading to a potential revaluation of assets as well as other business disruptions.</p>	↔	<ul style="list-style-type: none"> – Dedicated governance including a GRMC risk forum to oversee environmental and other risks relating to sustainable development and to recommend best practice. – Adopting cloud-based climate risk tool to assess physical climate risk of physical assets. – Conducting climate scenario analysis. – Adopting appropriate targets. – Having contingency plans in place to respond to extreme weather events.
<p>Emerging risk: Disruptive technologies</p> <p>Ineffective process in place to monitor developing trends and technologies that may threaten our business models.</p>	↔	<ul style="list-style-type: none"> – Oversight of technology development relevant to each operating company. – Dedicated GRMC risk forum to oversee technology risks. – Implementing generative AI application and governance framework.
<p>Emerging risk: Regulatory and policy change</p> <p>Inability to identify and comply with the relevant regulatory and policy requirements leading to material business disruption, regulatory breaches and reputational damage.</p>	NEW	<ul style="list-style-type: none"> – Maintaining awareness of the latest update on ESG reporting as well as legal, regulatory and governance changes relevant to our businesses. – Senior management engagement with government authorities. – Senior executive and Board member briefings on emerging regulatory changes. – Participation in public consultation on relevant policy initiatives and regulatory changes. – Through contacts with relevant authorities, understanding planned regulatory and policy changes which may affect the Group's businesses.



Risk level increased during the year 2023



Risk level decreased during the year 2023



Risk level remained broadly the same