AlAhli REIT Fund Risk Assessment Report

Fund Name	**AlAhli REIT Fund (1)**
Fund Term	**99 years, extendable for additional periods**
Country	**Kingdom of Saudi Arabia**
Risk Level	**High**
Date of Review	**March 2021**

Risk	Risk Description	Risk Mitigation
Income Distribution Risk	The Fund's objective is to provide periodic rental income to its unitholders through its investments in income generating properties. Any underperformance of its underlying assets, would expose the Fund to the risk of inability or failure to achieve the periodic or targeted future distribution obligations as per its Terms & Conditions (T&C). Moreover, as per the T&C of the facility provided to the Fund, the Fund should meet a number of conditions under a distribution test to be able to distribute dividends to unitholders. Any breach to these conditions could result in the Fund's inability to make such distributions.	• The Fund's approach to mitigate this risk, is to ensure that the underlying assets are performing well and generating the expected cash flows. ○ Al Andalus Mall: The Fund has signed long term contracts with anchor tenants and is continuously looking for ways to make sure that the Mall enjoys a diversified and strong tenant mix. ○ Al Andalus Mall Hotel: The Fund Manager is seeking top expertise to run the hotel efficiently and to insure a sustainable income from the property. ○ Salama Tower: The 18 floor office building is fully leased for 5 years to one primary tenant (head lease). ○ Qbic Building: high-end mixed-use commercial retail strip (showrooms, shops, office units and restaurants). The property is fully leased to one primary tenant the Ministry of Housing for a term of 3 years from 25 February 2020. Moreover, specific marketing strategies related to increasing footfall for the Fund's properties are being implemented by property managers and operators. • The Fund Manager meets regularly with the property agents and operators to closely monitor the performance of the assets and take prompt actions to ensure the Fund meets its performance targets. • The Fund Manager closely monitors the debt covenants to make sure that the Fund is in adherence with all the covenants including the distribution test.
Exit Risk	The Fund is invested in Real Estate assets which are illiquid in nature. This exposes the Fund to the risk of inability to liquidate the underlying assets in a timely manner and	• The Fund has a very long term to maturity (99 years, extendable) and the Fund's units continue to be tradable on the stock exchange, giving unitholders the ability to exit at the time of their choice based on prevailing market prices.

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<td>according to the Fund's strategy. This risk is more relevant as the fund gets closer to maturity.</td>
<td>• The Fund’s invested in Real Estate assets that are located in good and central locations in a major city. These assets have suitable appetite and strong investors demand and are easier to liquidate than other Real Estate assets.</td>
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<td>Credit Risk</td>
<td>The risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Fund is exposed to credit risk for bank balances and rent receivables.</td>
<td>• For Bank balances, the Fund’s policy is to enter into financial instrument contracts only with reputable counterparties.
• For rent receivables, the Fund is always looking to enter into long term lease agreements with well-established and reputable anchor tenants. Moreover, the Mall enjoys a diversified and strong tenant mix which is considered to be the best mitigation strategy against risk of tenants’ delinquencies.</td>
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<td>Concentration Risk</td>
<td>Portfolio Concentration: The Fund invests in 3 Real Estate assets located in Jeddah and one asset located in Riyadh. Although this portfolio concentration may enhance total returns to unitholders, if any large Investment results in a material loss, then returns to unitholders may be lower than if the Fund had invested in a well-diversified portfolio.
Clients/ Tenants Concentration: The Fund is well diversified in terms of client base and main contributors to its rental income. As of 31st December 2020. The top 5 largest rental revenue account for 34% over all fund’s properties, also the mall top 5 rental revenue represent 22% of the property total revenue.</td>
<td>• In its effort to further diversify the Fund’s asset base, the Fund Manager has completed multiple acquisitions in Jeddah and Riyadh during 2019 & 2020. The Fund’s asset breakdown is as follows:
<table>
<tr><th rowspan="2">Assets</th><th colspan="3">Concentrations</th></tr>
<tr><th>2020</th><th>2019</th><th>2018</th></tr>
<tr><td>Shopping Mall</td><td>63%</td><td>72%</td><td>85%</td></tr>
<tr><td>Hotel</td><td>11%</td><td>12%</td><td>15%</td></tr>
<tr><td>Office Plaza</td><td>13%</td><td>-</td><td>-</td></tr>
<tr><td>Office Tower</td><td>13%</td><td>16%</td><td>-</td></tr>
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The Fund Manager continues to explore additional options to diversify and mitigate this risk by looking for additional properties that meet its overall risk-return profile to add to the portfolio’s diversification mix.</td>
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<td>Valuation Risk</td>
<td>The risk that the market value of the Fund is materially lower than its NAV. This might be due to an overvaluation of the underlying assets.</td>
<td>• The Fund Manager manages this risk by:
○ Pre-acquisition: conducting proper due diligence and valuation to ensure that the Fund does not over pay at the acquisition.
○ Post-acquisition: focusing on long term value creation for Unitholders, and on its ability to generate sustainable periodic rental income and long term growth potential.</td>
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		• For the valuation of its assets, the Fund relies on two independent valuations from reputable Real Estate Valuation companies (ValuStrat and Knight Frank). These valuations are internally reviewed and checked by the Fund Manager's team to make sure that they are not overstating the fair value of the assets. • The risk that units of the Fund are valued lower than NAV, is also driven by general market sentiment, views on the entire REITS sector and real estate in general. When benchmarking against global valuation, in most countries REITS trade at a discount (lower) to NAV.
Liquidity Risk	Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations (e.g. debt servicing, dividends distribution, operating expenses, capital expenditure) in full as they fall due or can only do so on terms that are materially disadvantageous.	• The Fund Manager monitors liquidity requirements by ensuring that sufficient funds are available to meet any commitments as they arise. • The Fund enjoys a Credit facility that can be used to meet new acquisition requirements. • The Fund Manager always keeps a liquidity buffer by placing some money in liquid assets.
Profit Rate Risk	The risk that the value of Fund's assets and financial instruments will fluctuate due to adverse changes in profit/ interest rates. As the Fund is leveraged using a floating rate facility (priced at a SAIBOR + spread rate), any adverse change in SAIBOR would result in higher profit/ interest expenses and consequently lower total returns to the Unitholders.	• Over the last year, the Fed stance was more towards reducing interest rates which is reflected in the downward trend of the SAIBOR. • The Fund Manager does not foresee significant increases in SAIBOR, if any, over the next year.
Leverage Risk	The risk that the Fund may not be able to generate necessary income to service its debt which triggers an event of default. The Fund has obtained a Shariah Compliant Ijara facility to acquire income-generating properties. While this would contribute in diversifying the assets and would increase the Fund's cash distribution capacity and its total	• The Fund Manager was able to negotiate and secure a Financing agreement with favorable terms in order to guarantee optimal returns to the Unitholders. • The facility has a 5-year grace period, during which, the Fund will only pay interest (no principal repayment). This would reduce the financial burden on the Fund during its investment phase. • The Fund Manager closely monitors liquidity requirements by ensuring that sufficient funds are available to meet any debt repayment

	return, it also has the effect of potentially increasing losses in adverse scenarios.	commitments as they arise. Moreover, the Fund Manager closely monitors the debt covenants to make sure that all covenants are met.
Fund Manager Risk	Unitholders might not have the opportunity to participate in or control the Fund's daily operations or decisions including investment decisions and actions taken by the Fund Manager, which may have an impact on the performance of the Fund.	• The Fund Manager has set-up systems and controls to ensure that the Fund stays in compliance with the regulations at all times and that risks at the Fund are managed accordingly. • The Fund Manager relies on the expertise of its highly experienced investment team to act in the best interest of Unitholders and to achieve the Fund's long term growth aspirations. • In case where certain functions/ activities are outsourced to 3rd party service provider, the Fund Manager ensures that proper due diligence is performed on the 3rd party provider and that the latter accepts and adheres to the Fund Manager's terms of business.
Country Risk	The risk that new governmental regulation, policy and taxation; or political and social instability, could negatively impact the Fund's performance and/ or its liquidity.	• The Fund is fully invested in Saudi Arabia. • The Fund manages this risk by closely monitoring Saudi Arabia's regulatory/ policy/ tax landscapes and by anticipating and being prepared for any potential change.
Economic Risk	The risk that a deteriorated macroeconomic situation might negatively impact the performance and value of the underlying assets and consequently the Fund.	• The Fund Manager continues to closely monitor the general macro-economic situation and any specific development in the Real Estate sector to ensure that appropriate decisions are made accordingly.
Asset Under-performance Risk	The risk that the underlying assets will not perform as expected due to idiosyncratic factors such as, tenants' delinquency, higher CAPEX or higher vacancy rates. As of 31st December 2020, the Fund has SAR 1 million as a general provision for potential doubtful debts. The property manager continues to monitor this to ensure that all outstanding amounts are recovered.	• The Fund Manager has followed a number of mitigation strategies which include: ○ Sign long term contracts with anchor tenants ○ Ensure that the Mall enjoys a strong diversified tenant mix ○ Always asses the best potential ways to operate the Hotel. ○ Sign a long term head lease contract with a reputable company for the office tower and plaza ○ Asset and tenant diversification of the Fund

		• The Fund Manager also closely monitors the performance of the underlying assets and meets regularly with the property managers and hotel operator to monitor any issues/ events that might lead to Fund's underperformance.
Operational Risk	Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities either internally or externally, at the Fund's service provider and from external factors such as natural disasters.	• The Fund is managed by NCB Capital which has excellent track record and experience in asset management. • In order to ensure compliance with best practices, certain key activities that require subject matter expertise have been outsourced to experienced and reputable service providers with strong track record. Al Andalus Property Company was appointed as the operator of Al Andalus Mall. The company is considered to be one of the most prominent malls management companies in KSA with long positive track record. • The office tower and office plaza were triple-net leased (NNN) to one primary tenant. • Broadly, the Fund objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation by achieving its investment objective of generating returns to unitholders.
Compliance Risk	Failure of the Fund to adhere to laws, rules and regulations. This risk includes: Legal, Regulatory and Sharia Compliance risks.	• The Fund Manager continues to monitor the Fund's compliance against regulations and its Terms and Conditions and will take all necessary actions to fulfil and meet those requirements.
Structural Damage Risk	Structural damage lead by adverse events, where it could risk the income generating ability of the damaged property.	• The Fund Manager maintained a preventative maintenance on a regular basis. • The Triple Net leased properties, annual inspection by the Fund Manager/disclosure by the anchor tenant. • Property insurance in place for all the assets of the Fund.

COVID-19 Pandemic	The recent outbreak of the novel coronavirus (COVID-19) in many countries and Saudi Arabia had adversely impacted global commercial activity including Real Estate sector. The social distancing and national lockdown measures affected the performance of a number of assets (namely the Mall and Hotel). The COVID-19 pandemic and any other outbreak of any infectious disease or any other serious public health concern, together with any resulting quarantines imposed, could have a negative impact on economic and market conditions and trigger a period of global economic slowdown which could adversely affect the performance of the Partnership's investments	The Fund Manager follows a number of mitigation strategies to reduce, to some extent, the impact of such events: ○ Long term contracts with anchor tenants ○ Asset class and geographic diversification ○ Active management and monitoring of the Fund's cash flow position to make sure it is able to meet its obligation and to anticipate unexpected events. ○ Active monitoring and communication (either directly or through our partners) with all the tenants of the Fund during period of crisis. ○ Strict adherence to preventive measures and other government rules.