

## Risk Assessment Report 2019

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|------------------|---|
| Name of the Fund | Al Rajhi REIT Fund  |
| Type             | Close ended – REIT Fund listed on Tadawul Stock Exchange  |
| Objective        | Provide investors with regular income that is distributed semi-annually and a strong potential for capital growth through investment in income-generating real estate assets. |
| Tenure           | 99 years  |
| Risk Level       | Medium to High  |

| Key Risk           | Description   | Mitigation  |
|--------------------|---|---|
| Market Risk        | Risk of adverse changes in the economic conditions like demand supply imbalance, poor liquidity, insufficient credit availability etc. that may have a negative impact on property values.      | Evaluating properties on semi-annual basis to understand the market conditions and take necessary actions to protect the value of property.   |
| Credit Risk        | The failure of tenants to pay any contractual dues to the fund on time may result in a lower income of the fund and ultimately affect the earnings of the unitholders.                          | For new tenants: Credit analysis/ assessment by property manager of tenants before they are on-boarded. For existing tenants, regular monitoring of outstanding dues and follow up with tenants for payments.   |
| Liquidity Risk     | <ol style="list-style-type: none"> <li>Inability to convert assets into cash without a loss of capital or income in the process.</li> <li>Inability to service the debts of the fund</li> </ol> | <ol style="list-style-type: none"> <li>Any sale of asset shall be planned through a proper sale process keeping market conditions in mind. Currently there are no plans to sell any assets</li> <li>Debt Service Coverage Ratio of more than 6.00 provides adequate comfort on ability to service debt</li> </ol> |
| Interest Rate Risk | Risk of increase in profit payments due to increase in interest rate volatility impacting the fund's net income.  | 50.5% of total loan amount has fixed profit rate. Thereby significantly reducing the interest rate risk. Balance 49.5% amount has variable profit rate is exposed to interest rate volatility. No specific hedge mechanism in place for mitigating the variable interest rate risk.                               |
| Regulatory Risk    | Risk of not fulfilling legal and regulatory risks as applicable to the fund.  | The fund strictly follows all relevant governance and regulatory regulations. The company's governance and compliance department has an oversight on the fund Management activity.  |

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| <p><b>Concentration Risk</b></p> | <p>Excessive concentration of real estate type or sector or geographic location</p>  | <p>The fund has a well-diversified portfolio in terms of sector and location. As compared to last year, the Fund Manager have achieved further diversification by adding diverse properties in the portfolio. Below is the comparison of exposure to various sectors between Dec 2018 and Dec 2019 as % of the market value of the portfolio</p> <table border="1" data-bbox="868 629 1436 920"> <thead> <tr> <th>Sector</th> <th>2018</th> <th>2019</th> </tr> </thead> <tbody> <tr> <td>Retail</td> <td>51.1%</td> <td>33.6%</td> </tr> <tr> <td>Education</td> <td>8.5%</td> <td>27.4%</td> </tr> <tr> <td>Office</td> <td>25.6%</td> <td>21.4%</td> </tr> <tr> <td>Logistics</td> <td>14.7%</td> <td>10.5%</td> </tr> <tr> <td>Healthcare</td> <td>0 %</td> <td>7.1%</td> </tr> <tr> <td><b>Total</b></td> <td><b>100%</b></td> <td><b>100 %</b></td> </tr> <tr> <td><b>No. of Properties</b></td> <td><b>14</b></td> <td><b>18</b></td> </tr> </tbody> </table> <p>Fund Manager shall continue its effort to further diversify the portfolio.</p> | Sector | 2018 | 2019 | Retail | 51.1% | 33.6% | Education | 8.5% | 27.4% | Office | 25.6% | 21.4% | Logistics | 14.7% | 10.5% | Healthcare | 0 % | 7.1% | <b>Total</b> | <b>100%</b> | <b>100 %</b> | <b>No. of Properties</b> | <b>14</b> | <b>18</b> |
|----------------------------------|--|--|--------|------|------|--------|-------|-------|-----------|------|-------|--------|-------|-------|-----------|-------|-------|------------|-----|------|--------------|-------------|--------------|--------------------------|-----------|-----------|
| Sector                           | 2018   | 2019   |        |      |      |        |       |       |           |      |       |        |       |       |           |       |       |            |     |      |              |             |              |                          |           |           |
| Retail                           | 51.1%  | 33.6%  |        |      |      |        |       |       |           |      |       |        |       |       |           |       |       |            |     |      |              |             |              |                          |           |           |
| Education                        | 8.5%   | 27.4%  |        |      |      |        |       |       |           |      |       |        |       |       |           |       |       |            |     |      |              |             |              |                          |           |           |
| Office                           | 25.6%  | 21.4%  |        |      |      |        |       |       |           |      |       |        |       |       |           |       |       |            |     |      |              |             |              |                          |           |           |
| Logistics                        | 14.7%  | 10.5%  |        |      |      |        |       |       |           |      |       |        |       |       |           |       |       |            |     |      |              |             |              |                          |           |           |
| Healthcare                       | 0 %  | 7.1%   |        |      |      |        |       |       |           |      |       |        |       |       |           |       |       |            |     |      |              |             |              |                          |           |           |
| <b>Total</b>                     | <b>100%</b>  | <b>100 %</b>   |        |      |      |        |       |       |           |      |       |        |       |       |           |       |       |            |     |      |              |             |              |                          |           |           |
| <b>No. of Properties</b>         | <b>14</b>  | <b>18</b>  |        |      |      |        |       |       |           |      |       |        |       |       |           |       |       |            |     |      |              |             |              |                          |           |           |
| <p><b>Economic Risk</b></p>      | <p>Changes in economic conditions, including, for example, inflation, new government regulations, political events and trends, tax laws and other factors can affect the fund's prospects.</p> | <p>Regular monitoring of macro-economic conditions and regulatory trends in laws is carried out. Proactive steps to be taken to mitigate or minimize the impact as much as possible.</p>   |        |      |      |        |       |       |           |      |       |        |       |       |           |       |       |            |     |      |              |             |              |                          |           |           |
| <p><b>Financing Risk</b></p>     | <p>Inability to get the financing for the fund and thereby not able to achieve the desired leverage levels (subject to maximum cap of 50% of total asset value)</p>                            | <p>The fund has track record of securing the financing and is current on its debt service thereby maintaining good track record. The financing will be availed by mortgage of assets. The current LTV is 33.16% of total asset value and the fund has further scope to add leverage up to maximum cap permitted under the regulation.</p>  |        |      |      |        |       |       |           |      |       |        |       |       |           |       |       |            |     |      |              |             |              |                          |           |           |

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| Occupancy Risk                          | Risk of fall in occupancy levels of the properties and thereby impacting the rental income of the fund.  | Out of 18 properties, 16 are leased on triple net basis (except the cost of insurance for Al Fares international school property and Alsalam NMC Hospital will be borne by the fund) therefore occupancy is 100%. Remaining 2 properties that are multi-tenanted are managed through property manager who is entrusted with leasing the vacant premises as soon as possible ensuring maximum occupancy levels in these properties. There is provision of advance notice of 3 months by either party before terminating the contract. During this period alternative arrangement can be made. |
| Property Manager Risk                   | Risk of early termination of the property manager contract may impact the operations of the properties that it manages.  | Provision of advance notice of 3 months by either party before terminating the services. During this period alternative arrangement can be made.   |
| Lease Renewal Risk                      | Risk of non-renewal of existing leases or renewal at lower than current lease rate may impact the rental income of the fund.   | Provision of advance notice by tenants before terminating the services. During notice period alternative tenant can be searched. In some cases, the Fund Manager may accept the renewal of lease as per prevailing market conditions. Any significant impact arising due to such renewals shall be disclosed to the market.  |
| Increase in cost of managing properties | Risk of escalations in cost of managing properties on account of various reasons for example, increase in utilities charges, un-anticipated expenses, municipality regulations, natural calamities etc.    | Out of 18 properties, 16 are leased on triple net basis (except the cost of insurance for Al Fares international school property and Alsalam NMC Hospital will be borne by the fund) therefore master lessee is responsible for operating expenses of properties. For 2 assets that are multi-tenanted, property manager shall strive to maintain the current run rate of operating expense by efficient management.   |
| Structural Damage Risk                  | Any adverse event leading to structural damage to properties owned by the fund thereby risking the income generating potential from such properties may have negative impact on income profile of the fund | <ol style="list-style-type: none"> <li>1. For Triple Net Leased properties: Annual inspection by Fund Manager / disclosure from master lessee</li> <li>2. For Multi tenanted properties: Preventative maintenance on regular intervals</li> </ol>  |