

# Bonyan REIT

## Risk Assessment

## Report

## 2020



# RISK ASSESSMENT REPORT

## Risk Assessment Report

---

As part of effective risk management policy, the Fund Manager has adopted a four-point framework to ensure risks are appropriately identified and mitigated. The components of framework are as follows: Annual review of Risk Register and Control Matrix, Third Party Risk Management Strategy ("TPRM"), Continuous monitoring and reporting of any non-compliance with the regulations, and Annual monitoring of outstanding external audit recommendations. To address each of these areas, the Fund Manager has adopted policies and/or designated specific departments/staff at SFC to effectively mitigate those risks.

## The risk of not having an investment profitability guarantee in the Fund

---

Not ensuring that the Fund will be able to achieve investment returns or that the returns will be proportional to the Fund's investments. It is possible that the value of the units may decrease or the Fund may lose some or all of its capital. It is not possible to provide a guarantee that the expected or targeted returns of the Fund will be achieved. To reduce these risks, real estate assets are evaluated twice a year by independent valuers, and changes in market conditions are taken into account and actions are taken to protect the value of real estate and investment profitability.

## Risks of not fulfilling the relevant regulations

---

The Fund may become ineligible to be a real estate investment Fund in accordance with Real Estate Investment Funds Regulations and the Real Estate Investment Traded Funds Instructions as issued by the CMA. This can have negative effects on the liquidity of trading in the Fund's units, which may negatively affect the value of its investments. It should be noted that there is no guarantee that the Fund will remain in circulation in the financial market due to the failure to meet the regulatory requirements. To reduce these risks, the Fund Manager follows all the rules and regulations with independent supervision by the Compliance and Compliance Department on all the activities of the Fund.

## The risks of changing interest rates and general economic conditions

---

Changes in economic conditions, including interest rates and inflation, will negatively affect the business and opportunities of the Fund. To reduce these risks, the value and amount of financing is studied, which greatly reduces the risk of interest rates. As of the reporting date, the Fund is not exposed to interest rate risk on account of no utilization of loan facilities.

# RISK ASSESSMENT REPORT

## The nature of the investment risk

---

There will be no guarantee that the Fund will be able to achieve returns on its investments in a timely manner. There may be no possibility to sell or dispose of its assets, and if it is decided to dispose of it by selling, there may be no possibility to sell it at a price that the Fund Manager believes represents the fair value to it or to be sold within the time frame required by the Fund. To reduce these risks, none of the assets owned by the Fund will be sold until after the appropriate procedures are followed to sell them, according to the market conditions at the time.

## Real estate investment risks

---

The Fund will be affected by the general real estate sector conditions in the Kingdom of Saudi Arabia, which in turn are affected by many factors, including but not limited to, macroeconomic growth, political stability, change in interest rates, supply and demand, financing availability, real estate trends, liquidity, the legal and regulatory environment, and other conditions that may affect the real estate market prices, which in turn is reflected in the value of the Fund's units. To reduce these risks, the Fund Manager follows economic news, regulatory trends and laws that would help the Fund Manager to be proactive in taking the necessary steps to mitigate or reduce the impact of the event as much as possible.

## Risks of a decrease in the value of the property

---

The value of real estate is subject to fluctuations and changes. The change in the indicators of the Saudi economy may lead to a decrease in the market value of the Fund's investments, which in turn may lead to a decrease in the Fund's returns or the liquidation of the Fund. In addition, investments in commercial and residential real estate are exposed to risks that affect the commercial and residential real estate sector in general, including seasonal changes, real estate buyers desire and changes in economic conditions. To reduce these risks, Fund's assets are evaluated twice a year by independent valuers, and the Fund Manager may use internal valuations for various purposes, including knowing market conditions well to avoid loss.

## Risks of tenants being unable to meet their lease obligations

---

The real estate assets are leased by several tenants. Consequently, the Fund is vulnerable in the event that one of the tenants fails to fulfill its obligations. If one of the tenants fails to pay the payments due on a real estate or real estate assets, this may limit the ability of the Fund Manager to re-rent or rent the property on satisfactory terms. Accordingly, these risks are minimized by ensuring that there are lease contracts that preserve the rights of unit owners with the existence of property management contracts with a company specialized in property management, which in turn monitors and collects the rental payments in full.

# RISK ASSESSMENT REPORT

## **The risks of not occupying the real estate for long periods**

---

When any of the real estate units becomes vacant for long periods as a result of the expiry of the lease contract without renewing it, the inability of the tenant to legally complete the lease, the tenant has declared bankruptcy, cancellation or non-renewal of the contract or other reasons, the Fund may suffer from a decrease in returns, and hence lower periodic dividends for investors. To reduce these risks, high occupancy rates must be maintained, the Fund's properties managed appropriately, the property manager should be followed in the lease operations and find a replacement.

## **Risks of operating companies or companies specialized in property management**

---

The Fund will use a company or companies specialized in operating and managing real estate assets. Accordingly, any failure, failure, or defect in the level of service provided by the operator or the contractors for any reason will have a direct and negative impact on the performance of the Fund and its financial position, and thus on the unit price. To reduce these risks, a specialized, experienced and experienced property manager was selected to enable him to manage the assets appropriately, which would benefit the unit owners.

## **Real estate development risks**

---

1. Delay in completing works in a timely manner.
2. Exceeding the specified costs
3. The inability to achieve lease contracts at the expected levels
4. Force majeure resulting from factors outside the control of the fund related in particular to the contracting sector

Note that the fund does not intend to engage in any real estate development project at the present time, but in the event of entering into development projects in the future, the fund will develop a clear and logical plan that includes the necessary studies to avoid any problems.

# RISK ASSESSMENT REPORT

## **Risks of the possibility of not being able to renew the lease or re-lease the leased area at the end of the contract period**

---

The Fund depends on its profit on the rental amounts paid by the tenants and accordingly, the financial position of the Fund and the results of operations and cash flow as well as the ability of the Fund to distribute profits may be affected negatively in the event that the Fund is not able to immediately re-rent properties or renew the lease contracts. To reduce these risks, the lease contracts concluded with a prior notice period are included, enabling the Fund to search for an alternative tenant, and the Fund seeks to renew the lease contracts in line with the prevailing market conditions.

## **Risks of concluding long-term leases**

---

The Fund will enter into long leases with some tenants. These contracts may include increases in the rental value or may not include it. It is expected that the returns of the Fund will decrease when there is an increase in operating costs, inflation rates, change in currency exchange rates, or an increase in real estate prices with the stability of the rental payments. To reduce these risks, these contracts must be based on commercial foundations and future aspirations to avoid losses.

## **Risk of pandemics and/or similar situations resulting in lockdowns that might affect tenants' operations and their ability to honor lease payments**

---

The Fund owns 10 properties that are leased to tenants operating in various industries and/or individuals. There is a risk that a pandemic or similar situation might result in situation whereby tenants' use of property might be limited. In such a situation, tenants business's financial performance might suffer and accordingly, they might not honor their rental payments on time. The Fund Manager mitigates this risk by ensuring Fund's interests are protected by way of guarantees or other relevant means in lease contracts. Further, the Fund Manager aims to preserve Fund's strategic contractual relationships by engaging with all tenants in a timely fashion.

# RISK ASSESSMENT REPORT

**Fund Manager**

Saudi Fransi Capital  
8092 King Fahd Road – Riyadh – Kingdom of Saudi Arabia  
Mailing Address: P.O. Box 23454 – Riyadh 11426 – Kingdom of Saudi Arabia  
Telephone: +966 11 282 6666 – Fax: +966 11 282 6667

**Custodian**

Albilad Investment Company  
8162 King Fahd Road – Riyadh – Kingdom of Saudi Arabia  
Mailing Address: P.O. Box 140 – Riyadh 11411 – Kingdom of Saudi Arabia  
Telephone: 920003636 – Fax: +966 11 290 6299

**Financial Auditor**

Al-Azem, Al-Sudairy, Al-Shaikh & Partners (a member of Crowe Horwath International)  
3174 Prince Muhammad Bin Abdulaziz Road – Riyadh – Kingdom of Saudi Arabia  
Mailing Address: P.O. Box 11 – Riyadh 10504 – Kingdom of Saudi Arabia  
Telephone: 920004741 – Fax: +966 11 217 5000