12 RISK ASSESSMENT REPORT

Name	Swicorp Wabel REIT Fund
Tenure	99 years
Type	Close ended REIT Fund listed on Tadawul
Listing date	06th August 2018
Risk level	High

During the course of its operations, the REIT as well as the real estate assets in its portfolio are exposed to a range of potential risks. In case of any of those risks materializing, the performance and financial health of the REIT may be materially impacted. All potential investors must carefully evaluate the risks pertaining to the REIT against their specific individual objectives and circumstances and avail professional investment and legal advice before investing in the units of the REIT.

The Fund Manager has a robust risk management function guided by internal procedures, processes, and systems to carefully identify and manage potential risks with the aim of minimizing potential negative impact of those risks on the financial and operational performance and health of the REIT. The potential risks facing the REIT include, but are not limited to, the following:

Potential risks	Description	Mitigation measures
COVID-19 risk	The pandemic has caused business shutdown due to lockdown and curfew across the world. Which ultimately created significant damage to the demand side.	Swicorp has issued several disclosures regarding the potential impact of this pandemic. The disclosure can be read by visiting the below site: http://swicorpwabelreit.com/en/?open=1
Shopping Mall performance risk	Oversupply as a result of an increase in the Shopping Mall area space or declining demand as result of contractionary fiscal policy or the increasing adoption of online shopping by consumers	The fund manager is considering developing a risk indicator to gauge this risk. Such as foot traffic, afterward limits and thresholds will be adopted for the purpose of monitoring, reporting and escalation.
Property type concentration risk	The fund is currently fully exposed to only single type of real estate sector which is Shopping Mall. In the presence of full concentration, the fund is exposed to any form of Systemic risk which can be offset by	As per the T&C, the fund manager is not restricted to property investment in specific real estate sector. Thus future acquisitions could be directed toward other sectors such as residential, industrial or hospitality.

	diversification.	
Liquidity risk	Loss of market value at the time of property sell off due to weak market liquidity	The fund manager has a detailed process and methodology in the Fund's operating manual to be used as a guidance in the event of asset liquidation or acquisition. Furthermore, the investment properties are tested for impairment at each reporting date to assess the recoverability of the asset carrying amount. when there is indication that the carrying amount exceeds the recoverable amount the asset will be impaired and loss will be recorded via the statement of comprehensive income.
Capital Funding Risk	Since the fund pay out ratio is 90% by regulations, the fund will always be seeking raising capital for expansion purpose. The threat of funding difficulty could curtail fund's performance and hence Swicorp's reputation.	Currently the fund manager has successfully secured a financing arrangement of SAR 1.4 Billion worth of credit line for the purpose of the asset acquisition.
Yield Risk	Deteriorating fund's yield can be a cause of internal or an external factors. Determining the factors can help explain the type of risk the fund is running into in general.	The fund manager quarterly assesses the fund's performance by carrying out a comparison analysis in relation to other fund's yield. The purpose of the analysis is to underline whether the fund deteriorating performance is due to systemic or idiosyncratic risks.
Development risk	There are development risks associated with real estate projects under development, which include (1) delays in the completion of work in a timely manner, (2) cost overruns, (3) inability to obtain rental contracts at targeted returns, and (4) force majeure resulting from factors outside the control of the Fund relating to the construction sector (including poor weather and environment conditions and shortage of building materials in the market) the matter which hinders the completion of development projects which may affect the profitability and/or financial viability of the project and lead to inability to meet the revenue expectations upon completion	As per the T&C the fund has to maintain at all time a minimum of 75% in the form of an already developed income generating properties out of the total asset pool. This will limit fund exposure to investing in asset which is underdevelopment, hence will mitigate the development risk. During 2019, the fund did not take on any development activities.
Interest Risk	Uncertainty of increase in cost of funding due to increase in interest rate volatility impacting the fund’s net income	Upon acquiring new asset via debt financing, the fund manager will regularly perform a sensitivity analysis in order to highlight instances on which the fund's performance could have been negatively impacted by the increase in the cost of funding.

Inflation risk	Impaired fund performance as result of an increase in the general price level across the economy	Almost 30% of the tenants' contracts have an incremental rent pricing on annual basis. The rest of the contracts are constant, however on average the rent price per square meter for constant contracts is higher than the incremental one. Thus, the pricing mechanism for constant contracts takes into account potential future inflationary risk.
Tenant Credit risk	Impaired fund performance as result of tenants not meeting or paying rent by the time it is due	The fund adheres to IFRS for financial reporting purpose, accordingly provisioning will be computed as per IFRS 9 for any outstanding credit amount. Furthermore, the fund manager has developed a credit rating system to be used to provide more insight on the current tenant quality. Determining the quality of the tenant will further help to mitigate this risk by highlighting tenant which should be subject to eviction or retention. In addition, current agreement between fund manager and property manager dictates the maximum tolerable outstanding receivable amount at any point of time. In case the amount is breached the property manager must immediately work on reducing the receivables below the tolerable threshold.
Tenant Turnover risk	Weak Tenant retention which can cause variability in the rental income, thus negatively impacting fund's performance	The risk is under monitoring scope of the fund manager.
Lease vacancy risk	Loss due to the opportunity cost of a vacant leased area space for an extended period of time	An occupancy threshold between fund and property manager has been agreed upon and is part of the terms of the agreement. Accordingly, the Fund Manager monitors threshold on continuous basis.
Tenant Concentration risk by rental income	Rental income dependent on a single or few large tenants	The fund manager has devised a threshold for the purpose of monitoring and mitigating this should it occur.
Tenant default risk	Loss in rental income due to tenant inability to pay	The Fund Manager has specified in the agreement that overdue for greater than 90 days are automatically regarded as delinquent balances. This will automatically trigger a set of corrective actions. Among these actions are legal litigation in addition to the fact that the property manager may not be entitled to either part or whole compensations in case of failure to recover the dues.
Tenant downgrade risk	Based on an internal assessment of the fund manager, a tenant once downgraded increases chances of fund's specific risk	The fund manager has devised a threshold for the purpose of monitoring and mitigating this should it occur.
Counterparty	Fund's exposure to investments not under	To mitigate this risk, the fund manager adheres to fund's Terms and conditions

risk	management of the fund manager	which specifies that the maximum exposure to such type of risk should be no greater than 25% out of the fund's gross asset.
Operating expense risk	An increase to the physical assets operating or running expenses will ultimately impact fund's bottom line, thus performance.	To mitigate this risk the Fund Manager and the Property manager have agreed on an operating expense ceiling. For Additional expense, the fund manager will not be obligated for reimbursement. However for future acquisitions, there is no guarantee that the fund manager will be able to secure the same term of business for the newly acquired property.
Compliance risk	Non adherence to the fund's regulatory framework as set forth by the Regulator can have different negative implications to the fund. Among these risks, disqualifying fund's issued traded units from trading on the exchange.	The fund manager has a dedicated compliance resource in addition to a controlling procedure to make sure the fund is in full adherence to the Terms and Conditions.
Acquisition risk	The uncertainty that the fund manager will be making the right acquisition which could undermine the unit holders return.	To add extra focus and mitigate this risk, the fund board is provided details of all due diligence conducted.
Property manager risk	The fund's physical asset is managed by a third party. In the event the property manager fails to carry out its responsibilities as set out in the agreement, it can lead to unnecessary distortion to the operation process of the fund's physical asset. Thus, impairing fund's performance.	The fund manager has devised a threshold for the purpose of monitoring and mitigating this risk should it occur. In addition the fund manager at his sole discretion can terminate the contractual relationship with the property manager at any time, provided a 90 days advance notice is issued advising the property manager by the same.
Process risk	Critical processes which the fund manager has to undertake regularly for the fund's smooth functioning	The fund Manager shares the list of processes with the Risk Management Office, hence the Risk Management prioritize these processes for review based on criticality. The review outcome will be a set of recommendation based on the following: 1-Data integrity and accuracy 2-Succession planning 3-Efficiency and productivity.
Expropriation risks	The risk that the government forcibly takes over the ownership of a privately owned property	This is an idiosyncratic risk which its outcome nor can be predicted neither its impact can be determined presently.
Absence of an authorized personnel risk	Absence of an authorized personnel risk	Fund manager is committed to an up to date succession planning which is regularly verified by the Internal Auditor
Location Concertation risks	Properties which are fully concentrated in a single location could be exposed to greater market risk	The fund's underlying asset exposure is well diversified across four different areas

Litigation risk	Litigation risk is the possibility that legal action will be taken against the fund	This is an idiosyncratic risk that is difficult to assume and it also expected and accepted as part of the course of any business.
Zakat and Taxation risks	Zakat and Taxation risk is the chance that Zakat and Tax rules may change resulting in losses due to higher than expected taxes	The fund manager closely keeps track of major economic fiscal development and accordingly discount Zakat and Taxation relevant scenarios into the fund's annual budget.
Leasehold risk	Out of the four properties owned by the fund, one is a leasehold not a freehold. Chances of this leasehold not being renewed or renewed at relatively expensive terms could have a negative impact on the fund's performance	Unlike the other freehold properties which are depreciated over 25 years, the leasehold property is depreciated based on the remaining land lease period. The leasehold agreement is to expire in 17 years on December 2036. As such, in case of a non-renewal to the land lease. The concerned property will be fully depreciated. In the event the leasehold is renewed at an expensive terms, based on IFRS the fund manager will capitalize the value of the operating lease by calculating its present value. Thus an asset will be recognized at a higher value reflecting the new pricier lease terms.
Related party credit risk	Inability to collect dues from a related party	The fund has a credit exposure to Wabel Alarabia For Investment Company who is a related party by being a major unit holder and a service provider to the fund through its property management company Akeed. The credit exposure is due to Wabel Alarabia For investment Company collecting rents in its own account on behalf of Swicorp Wabel REIT. . As such the rent collected continue to be credited to the related party's bank account not the fund one. To mitigate this interim risk the fund manager seeks balance confirmation with the related party on a monthly basis to confirm the amount of collected rents. Furthermore, the Fund manager initiated the process of transferring the lease agreements to SWICORP WABEL REIT as of Q4 2019
Related party settlement risk	Related part failure to deliver or pay what is owed to the fund	As of this report's date, the related party exposure belonging to Wabel Investment Company as shown in the 31 December 2019 financials, has been totally settled.