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
Shopping Mall performance risk	Oversupply as 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 has foot fall traffic devices installed to count the number of visitors.
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 diversification.	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, hospitality, education, logistics, offices.
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. If there is an 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.

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Capital Funding risk	Since the fund pay-out ratio is 90% by regulations, the fund will be always seeking liquidity funding for expansion purpose. In the absence of capital expansion may be curtailed affecting the fund performance and reputation.	The fund does not have a financing agreement in place as we speak, however once the appropriate asset for acquisition is determined, financing arrangement can be secured.
Yield risk	Deteriorating fund's yield can be a cause of internal or an external factor. Determining the factors can help explain the type of risk the fund is running into in general.	The fund manager semi-annually 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.
Real Estate 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. Furthermore, the fund manager focused is on developed asset.
Interest Risk	Uncertainty of increase in cost of funding due to increase in interest rate volatility impacting the fund's net income	As we speak this risk is not applicable due to absence of debt financing. However, the risk will be relevant when a debt financing is used.
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.
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 a Risk Management resource for the purpose of monitoring and reporting this risk independently.

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Lease vacancy risk	Loss due to the Opportunity cost of a vacant leased area space for an extended period.	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 to make sure it is maintained. Also, in case of failure to maintain the threshold the Fund Manager can exercise his KPI deduction right.
Collection and Receivable risk	Inability to convert receivable into cash due to weak collection.	A collection and a receivable threshold has been agreed upon with the Property Manager. In the event of failure to maintain this threshold, the Fund Manager can exercise his KPI deductions set out in the property management agreement until the KPI is delivered.
Tenant default risk	Loss in rental income due to tenant inability to pay.	The fund Manager exercises the following to preventive measures to mitigate this risk: 1-Collection and receivable KPIs. 2-Rental Default policy periodic review.
Counterparty risk	Fund's exposure to investments not under management of the fund manager.	To mitigate this risk, the fund manager adheres to fund's Terms and conditions 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.	The fund Manager prepares an annual business plan before the start of the year. Hence the business plan serves as benchmark to controlling and monitoring this risk.
Regulatory Compliance risk	Nonadherence 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 asset manager will be making the right acquisition which could undermine the unit holders return.	To add extra focus and mitigate this risk, the fund represented by its board has approved an investment committee to oversee and deal with the fund's asset acquisition and disposition more closely.
Expropriation risks	The risk that the government forcibly takes over the ownership of a privately owned property.	This is an idiosyncratic risk and its outcome can neither be predicted nor its impact can be determined presently.

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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. For the year 2021 no additional Zakat and Taxation risks have been discounted.
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 15 years in December 2036. As such, in case of a non-renewal to the leasehold. The property lost due to the non-renewal will be fully provided against. In the event the leasehold is renewed at an expensive term, 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.
Rental Discount risk	Rental discount is a strategic tool used for tenant retention to improve occupancy and fund's performance. However, excessive discount can have opposite impact on performance as well.	The fund Manager exercises the following to mitigate this risk: 1- Impact Analysis. 2- Assessing Tenant credit worthiness. 3- No rental discount is availed unless all historical dues are totally settled.
Property Manager Performance 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 agreed on set of KPIs with the Property Manager. In the event of non-achievement of KPIs, the Fund Manager can exercise the following: 1-Make KPIs deductions. 2- Refuse to accept any subsequent performance of the Services which the Property Manager attempts to make. 3-The Property Manager will be obligated to arrange for substitute service from elsewhere. 4-Hold the Property Manager accountable for any loss and additional cost incurred. 5-Terminate the agreement and have all sums previously paid by Fund Manager to the Property Manager refunded by Property the Manager.

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Operational risk	Absence of internal control can be any of the below but are not limited to the following: 1- Absence of Policy and procedure for various finance, operations, and leasing processes. 2- Failure to manage lease administration and tenant relations. 3- Failure to meet Financial Management obligations as stipulated in the agreement. 4- Failure to perform crisis management duties. 5- Absence of Technical building survey and mall inspection in addition to other facility management obligations as stipulated in the agreement. 6- Absence of Qualified and authorized competent human resources. 7- Failure to maintain up to date record and backup copies on the integrated ERP system. 8-Absence of Regular reporting and dashboard. 9- Absence of leasing strategy and pricing policy. 10- Absence of Budget, business, marketing, operation, and project plan. 11- Absnece of Controls over supplies provided by the Fund Manager. 12- Failure to obtain necessary regulatory licenses and permits. 13- Non-compliance with safety, environmental, construction, workplace and planning as required by various government agencies. 14- Absence of Controls over Third party service providers appointed by Property Manager such as subcontracting. 15- Loss of rental revenue due to Property Manager's failure in carrying out his obligations. 16- Breach of confidentiality. 17- Any other unauthorized activities undertaken by the Property Manager.	Internal controls are part of the Property Manager obligations and are subject to the same mitigations under Property Manager Performance risk.