

MEFIC REIT Risk Assessment Report / December 2024

- Based on the instructions of the Capital Market Authority in relation to real estate traded funds, the basic risks related to the MEFIC REIT Fund have been evaluated based on an objective assessment of all risks related to the fund that may have an impact.

Number	Type of risk	Risk Description	Applies	do not apply	Risk evaluation mechanism
1	Investment Risk	There is no guarantee that the fund will succeed in achieving returns for investors, or that the returns will be appropriate with the risks of investing in the fund and the nature of the transactions described in these terms and conditions. It is possible for the value of the units to decrease or for investors to lose some or all of their invested capital and, some properties are leased and with the expiry of the term the assets would no longer be in the books of MEFIC REIT.	✓		<p>The fund manager does not provide any guarantees that the fund will succeed in achieving returns to investors, except for what has been mentioned in the terms and conditions</p> <p>The fund manager seeks to achieve the best performance for the fund's real estate in order to protect shareholders' rights.</p>
2	Sharia Compliance Risk	The fund's investments must be made in accordance with the rules of Islamic Sharia as determined by the Sharia Board. These controls apply to the investment structure and to some extent the fund's activities and the diversification of its investments. In order to adhere to these controls, the fund may be forced to abandon the investment or part of it, or part of its income if the investment or investment structure is in violation of the Islamic Sharia regulations. Additionally there is a risk that some violations might happen by not following the sharia guidelines.	✓		<p>The funds' mandate to invest in sharia compliant products and is disclosed in the T&Cs of the Fund. The fund is subject to the supervision of the Sharia Supervisory Board. It should be noted that all the operations of the fund are reviewed by the Sharia Board and the sharia report for the fund is issued by the sharia auditors on compliance of the sharia guidelines each year.</p>
3	Risks of non-compliance with related regulations	The fund may become ineligible to be a real estate investment traded fund according to the regulatory instructions of real estate investment traded funds, which would have negative effects on the liquidity of their units' trading, which may negatively affect the value of their investment. The requirements to maintain the fund's status as a real estate investment traded fund have not been tested. In addition, subsequent changes may be made to the requirements to maintain the fund's status as a REIT. Prospective investors should note that there is no guarantee that the fund, after being selected to be a real estate investment traded fund, will remain a real estate investment traded fund. Or, it will continue to maintain this status (whether due to non-fulfillment of regulatory requirements or otherwise). In the event that the fund fails to fulfill any of the regulatory requirements necessary to maintain its status, the Capital Market Authority may suspend trading of units or cancel the listing of the fund. The inability to list the fund in the Saudi Stock Exchange "Tadawul" could lead to negative consequences for the possibility of marketing the		✓	

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		units and their liquidity and value, which may negatively affect the unit's trading price or return on investment.			
4	Risks of investing outside the Kingdom	International investment - outside the Kingdom - involves many risks such as the currency exchange rate, political and economic fluctuations, high costs to the investor and information security risks. In effect this could affect the fund's profits and / or the valuation of its assets, which may negatively affect the price of its units and profitability of the fund.	✓		The fund manager chose a country with low political risks, especially in the Gulf region, close to the Kingdom of Saudi Arabia in policies and legislation, and with a stable currency.
5	Market risk	The risk of adverse changes in the economic conditions like demand-supply imbalance, insufficient credit availability, etc. may have a negative impact on asset value. All these changes may have an impact on the fund's performance.	✓		The fund manager monitors economic changes and always seeks to take the necessary measures to protect the value of the assets.
6	Interest Rate Risk	The value of investments in the fund may be affected by the change in interest rates, and as financing expenses increase, Investment returns for unitholder would decrease since a higher portion of finance expense would impact the profitability of the fund. Also investment instruments, if any, priced at the market value may be adversely affected, leading to a decline in the unit price and profitability of the fund.	✓		The fund manager continues to search for lowinterest financing facilities and manage financing installments. The fund manager tries to find opportunities of hedging the unexpected rise in interest rates, but the interest rate risk is not in control of the Fund. The fund entered into a financing agreement "Profit Rate Cap", before as the rate of profitability on financing is limited to a higher ceiling, and it was agreed that the profit rate does not reach a higher level than the higher ceiling level in all cases but that has already expired.
7	The risk of trading at a price below the market value of the IPO price	Units may be traded at a price lower than the initial offering price at the time of subscription, and unit owners may not be able to fully recover the value of their investment. Units may be traded at a lower price than their value for several reasons, including unfavorable market conditions, weak investor expectations about the feasibility of the strategy and investment policy for the fund, and an increase in supply over demand for units. This may negatively affect the unit's trading price or return on investment.	✓		The average trading price of the fund's units is less than the listing price, similar to most REIT funds listed in the market, as the company prepares feasibility studies in addition to strategic studies in order to maintain the unit price and not to increase the supply over demand, which contributes to the drop in unit prices.
8	Risks of valuing the fund's net assets	The value of the fund's net assets is determined at least once every six months. However, the value of the fund's primary investments may change in the period between valuations. Therefore, the market price of the units can be determined based on historical information that may not reflect the current value of the fund's underlying investments. Moreover, the fees payable to the fund manager are only modified from one evaluation to another. Thus, the owner of the units is not aware of the value of the fund's assets updated during this period, and he may dispose of the units of the fund in a manner that may negatively affect his returns on the value of his investment.	✓		In the event that there is any clear discrepancy, the fund manager will inform the unit holders immediately, and the fund manager studies and carefully selects the asset valuation companies that meet all the requirements of the executive authorities so as not to harm the value of the assets by giving an unfair value to the assets managed.

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9	Risks of fundamental value reversal	The quoted market price of the units may not reflect the value of the fund's underlying investments. The money markets may be exposed to large fluctuations in prices and the volume of transactions from time to time, and this matter, in addition to economic, political and other conditions, leads to a negative impact on the value and price of trading units. As a closed public real estate fund, the price of a single unit may be affected by a number of factors, many of which are outside the control of the fund and some of them are related to the fund and its operations, some of which affect real estate investment or stock markets in general.	✓		the fund manager has a qualified team that target to operate the fund in an efficient way
10	Risks of constraints related to raising funds for future acquisitions	Distribution requirements and financing restrictions under the directives of REITs may limit the fund's flexibility and ability to grow through acquisitions. The fund intends to distribute at least 90% of its net profits to the unitholders, with the exception of profits resulting from the sale of basic real estate assets and other investments, which may be reinvested in additional assets or the maintenance and renewal of the fund's existing assets. In addition, in order to maintain the fund's status as a traded real estate investment fund, the financing ratios of the fund must not exceed 50% of the fund's total assets value. As a result, the fund has a limited ability to improve its assets or achieve growth through the acquisition of additional assets, and thus may affect the profitability of the fund, knowing that the fund can increase its capital by offering priority rights in line with the Capital Market Authority regulations and the Companies Law.	✓		In the event that the fund manager wishes to make future acquisitions, the fund will increase its capital by offering priority rights in line with the Authority's regulations. Or the use of other options that are compatible with the terms and regulations of the REIT funds.
11	Risks of potential conflicts of interest	The fund is subject to different situations of conflict of interest because the fund manager and its subsidiaries, their respective managers, managers and associates may be involved in real estate activities and other commercial activities, directly or indirectly. In this regard, the fund may from time to time deal with persons, companies, institutions or companies that are associated with the subsidiary companies of the fund manager to facilitate investment opportunities. It does not require the bodies to whom the fund's board of directors has delegated specific responsibilities (including the fund manager) to devote all of their resources to the fund. In the event that any of the aforementioned bodies dedicate its responsibilities or resources to the benefit of others, this may limit its ability to devote its resources and responsibilities to the benefit of the fund, which may affect the Fund's ability to achieve its objectives in terms of growth in returns and the ability to achieve a better market value for units..	✓		In the event of a conflict of interest, the portfolio manager will inform the fund's board of directors of the potential for a conflict of interest, and then the board of directors will take the necessary decisions to prevent the occurrence of conflicts that could harm investors.
12	Currency exchange rate risk	The fund's main currency is the Saudi riyal, but the fund may acquire real estate, enter into investments, or pay any fees or costs in a currency other than the Saudi riyal. Consequently, any change in the exchange rate of these currencies may increase the costs incurred by the fund, which may negatively affect the fund's unit price. Also, unit holders for whom the Saudi riyal is not the base currency are exposed to exchange rate fluctuations.	✓		There is no currency exchange rate risk due to the fund investing in the United Arab Emirates, where the risk of currency exchange rates decreases due to the convergence of the local currency exchange rate with the UAE Dirham.

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13	Risks of incorrect expectations and changes in market conditions	The future performance of the Fund depends largely on changes in the levels of supply and demand in the related real estate sector, which may be affected by regional and local economic and political conditions, increased competition that results in lower real estate values, the possibility of limited availability of housing loans or an increase in mortgage rates, and changes in supply levels and demand. Therefore, incorrect expectations used by a fund manager for the purposes of making an investment decision can have a negative impact on the fund.		✓	
14	Not to participate in the administration	With the exception of what is mentioned in the terms and conditions, investors have no right or power to participate in managing the fund or influence any of the fund's investment decisions. All management responsibilities are assigned to the fund manager. As these decisions affect the activities of the fund and thus the unit owners.		✓	
15	Technical risks	The fund manager relies on the use of technology in managing the fund, but its information systems may be exposed to hacks, viruses, or partial or complete disruption, which limits the fund manager's ability to effectively manage the fund's investments, which may negatively affect the fund's performance and consequently the unit holders of the fund.	✓		The fund manager follows policies and procedures related to information security systems so that any attempt to penetrate and prevent viruses is detected early, in addition to the policies and procedures of the business continuity plan.
16	The risk of default of the fund manager	Whereas, the fund manager is obligated by his pure will, in the event that the fund's return is less than 5%, to donate to pay no more than a return of 2% of the MEFIC's own assets for the investor unit holders by offering, for the unsold units since the beginning of the offering. Consequently, in the event of a default, the fund manager will not be able to make the obligatory donation of the difference in return if it falls below the target.	✓		The fund manager does not provide guarantees, except for those mentioned in the terms and conditions.
17	Liquidity Risk	The fund is subject to different situations of conflict of interest because the fund manager and its subsidiaries, their respective managers, managers and associates may be involved in real estate activities and other commercial activities, directly or indirectly. In this regard, the fund may from time to time deal with persons, companies, institutions or companies that are associated with the subsidiary companies of the fund manager to facilitate investment opportunities. It does not require the bodies to whom the fund's board of directors has delegated specific responsibilities (including the fund manager) to devote all of their resources to the fund. In the event that any of the aforementioned bodies dedicate its responsibilities or resources to the benefit of others, this may limit its ability to devote its resources and responsibilities to the benefit of the fund, which may affect the Fund's ability to achieve its objectives in terms of growth in returns and the ability to achieve a better market value for units.	✓		The fund manager has sufficient financial solvency to enable him to fulfill his obligations towards the fund's clients.

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18	Risks of unequal access to information	The fund will issue 28.5% of its units to property owners in exchange for their in-kind contribution to the fund's capital. This group also represents the real owners of the selling companies and property management companies and thus risks arise about the group of real estate owners or real estate managers obtaining essential information which the fund manager may not be aware of or may not realize that it is material. In addition, they may have the ability to interpret the information in due course, other investors may not have the capacity to do so.		✓	
19	Risk of projects delay or default	Risks that may result due to not completing the process of construction or development by the developer or the contractor of the fund's projects, which lead more cost on the fund and can't pay dividends which lead to minimize the benefits of the unitholders.	✓		The fund manager appoints a well-known operator with a good reputation in the market to accelerate the operational processes in both hotels.
20	Regulation and law risk	Risks that may result through differences between the Saudi laws and regulations and the country of investment laws and regulation which may lead to not fully understand on these country laws. There is a risk some operations/activities might fall short of complying with the relevant laws and regulations of the Kingdom of Saudi Arabia.	✓		The fund manager has as signed legal consultant to ensuring full understanding of the laws and regulation of investment and related activities and operations as well to make sure that all trade transactions are in compliance with applicable laws and regulations,. Constant monitoring is done by the fund manager to ensure that none of parties act against the laws and regulation.
21	Employees' turnover risk / Relying on senior staff	Financial services industry in Saudi Arabia has high employee turnover rate, the transfer of tasks and responsibilities and information from one employee to another can cost the fund additional time, effort, and money, impacting the speed and efficiency of the work. The success of the fund depends mainly on the success of its management team. The loss of the services of any member of the fund management team in general (whether due to resignation or otherwise) or the inability to attract and appoint additional employees may affect the fund's work and its system. The lack of a successful team to manage the fund may negatively affect the ability to develop real estate and fund assets And the ability to negotiate because of the interest of the fund, which may be reflected in the returns of the fund and the value of its investment units.	✓		The company sets policies and procedures followed, which stipulate that the team is trained to carry out the duties of the fund manager to the fullest, in addition to having a qualified alternative team to manage the fund. The fund manager actively seeks replacement of exiting employees and is working on succession plan for key positions. Moreover, time and efforts are invested in hiring interns/trainees to prepare them for progression in their role and ensure maximum continuity.
22	The risk of collection	The risk of collection pertains to the risk of arising from the inability of delay in collecting rents for the fund, causing issues in its cash flow cycle and delaying Dividends to shareholders, if declared. The risk of collection	✓		The fund manager has worked on appointing a collection agency and assigning law firms to pursue and file lawsuits against all those

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		pertains to the risk of arising from the inability of delay in collecting rents for the fund, causing issues in its cash flow cycle and delaying Dividends to shareholders, if declared.			who are behind on payments. Considering that the lease contracts are binding, they are deemed a right for the fund, and the manager is diligently working to collect any amounts. All new contracts are entered into through EJAR system to ensure enforceability of rights and obligation both for lessor and tenants.
23	Insurance Risk	The risk of assets being uninsured or facing difficulty in obtaining insurance occurs when a property-specific risk occurs, and it is not insured, this could potentially cost the fund more than anticipated and planned for losses.	✓		The fund manager obtains and keep insured the largest properties in the fund's portfolio, which constitute a significant portion.
24	Governmental transaction Risk	The risk of governmental transaction lies in the potential non-acceptance of civil defense licenses or adherence to Saudi Building code requirements, this may result in additional costs and delays in project timelines.	✓		The fund manager works diligently to complete all necessary procedures.