

Risk Management

The Board of Directors has oversight responsibilities on risk management practices across the company and has appointed the Board Risk Oversight Committee (BROC) to provide continuous input, evaluation and feedback on the effectiveness of the company's risk management process and internal controls system.

Through AREIT management, the Committee ensured that an enterprise-wide risk management program was established employing a process that considers a holistic view of the Company's potential risk exposures and the strategies to manage the identified key risks. This is complemented by periodic performance reviews and constant communication across the organization.

The BROC agreed to prioritize seven key risk concerns that will be monitored. The seven key risks and mitigating measures are as follows:

EXECUTIVE	EXECUTIVE
<p>Market Oversupply in market to put pressure on lease renewal rates</p>	<p>AREIT's portfolio is composed of grade-A commercial properties in prime locations, ensuring stable tenancy.</p> <p>Lock in early renewals and incentivize space retention.</p>
<p>Competition Competition is getting better and more aggressive in terms of business expansion and product offerings; new players coming into the REIT business</p>	<p>A clear investment strategy & growth plan; yield accretive acquisitions of both sponsor-owned and third-party assets acquisitions, funded through equity & debt.</p> <p>Accelerating growth plans and tripling assets under management ahead of 3-year investment plan.</p> <p>Diversifying portfolio by sector, geography and asset class.</p>
<p>Regulatory Industry is subject to regulatory policies. Any changes to these policies or amendments and new laws will affect locator's financial assumptions and operations.</p>	<p>Through its Property Manager, AREIT ensures that its properties are fully compliant with PEZA and other regulatory requirements. We ensure continuous engagement with regulators, and we work with industry organizations on issues we need to address. We also maintain positive relations with LGUs wherein we operate.</p>
<p>Loss of locators or key tenants High occupancy costs and poor service may result in the loss of key locators or tenants. Single large account locators or customers leaving may adversely impact the business on non-renewal. Customer or tenant expectations not being met in service delivery.</p>	<p>The AREIT Property Manager takes an active lease management approach. Deliberate efforts were made to ensure tenant concentration risk is low, diversifying tenant base with AREIT's asset infusions in 2023.</p> <p>Continued facility upgrade programs for older buildings and maintaining and monitoring customer satisfaction levels are in place.</p>
<p>Financial Ensuring liquidity and a healthy balance sheet specially are needed to finance debt and support growth. Rising inflation rates put pressure on operating expenses.</p>	<p>The company takes a prudent approach to financial management and cost control, closely monitoring capital and cash positions and maintaining discipline in capital commitments. It also maintains ample short-term revolving credit facilities which are supplemented by its access to the local debt capital market, allowing AREIT to lock in interest rates longer term. Moreover, AREIT maintains a strong credit rating and invests only with counterparty banks of the highest credit standing.</p>
<p>Environmental Given the country's natural location in the Pacific Ring of Fire, natural perils, such as earthquakes and volcanic eruption hazards, can disrupt business operations and damage the company's properties. The incidence of typhoons and other extreme weather events has also increased due to the changing climate.</p>	<p>Technical due diligence in project development; compliance to applicable codes and standards; pro- active maintenance and implementation of best practices; establishment of crisis management and regular conduct of emergency readiness drills; necessary insurance program in place.</p>