

# Risk Report

As an international real estate investor, property owner and project developer, IMMOFINANZ is exposed to a variety of general and branch-specific risks in its business operations. An integrated risk management process provides the Group with a sound basis for the timely identification of potential risks and the assessment of the possible consequences.

Risks represent the possibility of deviating from planned targets as the result of “coincidental” disruptions caused by the unpredictable nature of the future. In this connection, negative variances are considered risks in the strict sense of the term and positive variances are seen as opportunities.

## Principles of integrated risk management

The structure of risk management is based on the rules of the Austrian Corporate Governance Code and the integrated framework of the COSO ERM\* , an internationally recognised concept for the design of risk management systems.

Based on the hedging and management instruments currently in use, no material risks can be identified at the present time that would endanger the company's standing as a going concern. The level of uncertainty caused by COVID-19 and its impact on the overall risk situation for the company and the entire market environment in 2021 was only marginally lower than the previous year. The potential effects of the COVID-19 pandemic on the 2022 financial year are discussed in detail at the end of this risk report.

IMMOFINANZ has anchored the procedures for handling risk in a Group-wide risk management system, which is integrated in business practices and reporting paths and has a direct influence on processes and strategic decisions. Risk management takes place at all levels through internal guidelines, reporting systems and the internal control system (ICS) which is monitored by the internal audit department.

### Monitoring and control of the risk management system

The risk management system is monitored and controlled through two corporate channels. On the one hand, internal audit evaluates the effectiveness of risk management and contributes to its improvement. On the other hand, the auditor reviews the functionality of risk management in accordance with C-Rule 83 of the Austrian Corporate Governance Code (in the version released in January 2021) and reports to the Executive Board on the results of this analysis.

### Evaluation of the functionality of the risk management system

Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna, evaluated the effectiveness of IMMOFINANZ's risk management system during the period from November 2021 to January 2022. This analysis covered the design and implementation of the measures and organisational procedures instituted by the company, but not their application in the sense of operating effectiveness. The conclusions by Deloitte indicated that the risk management system instituted by IMMOFINANZ as of 31 December 2021 – based on the COSO comprehensive framework for corporate risk management – is functional.

## Structure of risk management

The goal of risk management is to implement the strategy defined by the Executive Board with a minimum of risk. The Group's strategic goals are transferred to the operating processes where the measures for the identification, prevention and management of risks are located.

\* Committee of Sponsoring Organizations of the Treadway Commission – Enterprise Risk Management; coso.org

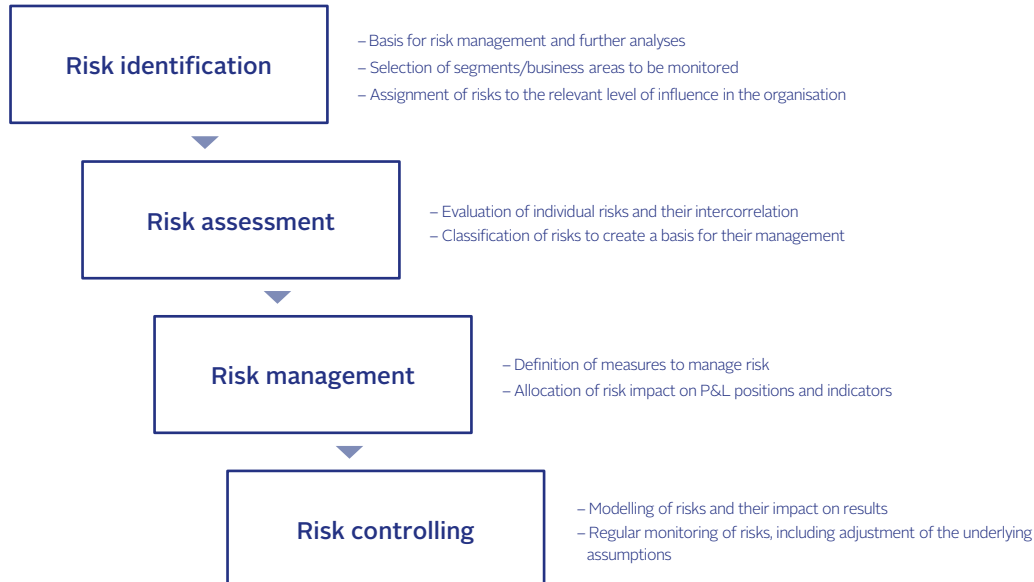


The Executive Board, as a whole, is responsible for risk management in the IMMOFINANZ Group and defines the corporate goals and related risk strategy.

Risk management is a staff function which reports directly to the Chief Financial Officer (CFO). It monitors the corporate risks that are not related to specific business areas, aggregates risk data and reports, and actively supports the business areas and country organisations in the identification of risks and economically feasible countermeasures. Risk management reports regularly to the Executive Board and quarterly to the Supervisory Board.

At the business area and country organisation levels, the heads of the respective units are responsible for risk management. Risk positions are reported to the Executive Board at least once each quarter by the business area managers and at least twice a year by country management. Acute risks are reported immediately to the Executive Board.

#### Risk management process



#### Material risk categories

The risk categories relevant for IMMOFINANZ follow the company's value chain and are also focused on environmental, governance and social risks. IMMOFINANZ has defined a broad range of measures to address and counter risks. These measures represent an integral part of all corporate processes and, consequently, form the basis for the reduction of risk.

Risk category	Description	Countermeasures
<b>Business risks</b>	These risks are related to the general framework conditions for business activities and exceed the scope of property-specific risks.	These risks are countered by strategic decisions at the corporate level.
	Financial risks are related to lenders or the terms and conditions for the provision of cash and cash equivalents (see section 7.2 in the notes to the consolidated financial statements).	The continuous monitoring of asset and liability positions as well as proactive analyses form the basis for strategic measures to safeguard financing power.
	Operational risk can arise through detrimental actions by corporate bodies and/or employees to the disadvantage of the company.	The company's activities are separated into individual processes and relevant process steps are controlled internally.
	Other risks represent individual risks with a Group-wide impact.	These risks are countered by strategic decisions at the corporate level.
<b>Risks of improper business practices</b>	IMMOFINANZ is committed to responsible and transparent actions and to compliance with legal rules and regulations. Risks in this area arise from deviations from these general principles.	Guidelines have been issued to cover the actions of corporate bodies and employees in individual areas to prevent these risks from occurring.
<b>Social risks</b>	The company is responsible for its employees as well as other service providers in the broader sense of the term. Risks arising from the company's role as an employer in the broader sense of the term are aggregated in this risk category.	IMMOFINANZ's commitment to compliance with all fundamental and human rights as well as regular surveys of employees' needs represent the cornerstones of risk minimisation in this area.
<b>Environmental and climate risks</b>	Climate risks arise from the meteorological conditions at a property's location. In addition, environmental risks arise from the construction and operation of buildings.	Measures are implemented on a timely basis to prevent any negative effects on a property. When new buildings are constructed, a special focus is also placed on minimising the negative impact on the environment.
	The attainment of climate neutrality and the development of a circular economy are connected with risks arising from the technological and regulatory transition.	IMMOFINANZ takes the necessary steps to support the technological improvement and sustainable management of its buildings. It also supports the creation of a greater awareness for these issues by all stakeholders.
<b>Project development risks</b>	Planning risks are risks which occur during the planning phase of a property. This phase extends from the design to the approval of a project.	Project development risks are prevented by the exact inspection of new locations, the timely involvement of all stakeholders and measures to anticipate future developments.
	Realisation risks represent the risks arising in connection with the construction of a building, beginning with the receipt of the building permit.	Realisation risks are prevented through quality assurance measures in processes as well as measures to externalise risk.
	Marketing risks are related to the commercialisation of a project and are very important in regard to profitability.	Marketing risks are precluded by timely risk and opportunity analyses as well as long-term market monitoring.
<b>Asset management risks</b>	Earnings risks are risks connected with the generation of steady income from the standing investments.	IMMOFINANZ is taking steps to evolve from a conventional landlord to a service provider who reacts early on to market trends.
	Usage risks, as a group, represent the risks involved with the management of a property and, consequently, have a significant influence on the company's earning power.	Active portfolio management and the continuous technical monitoring of properties are designed to reduce usage risks.
	Owners, tenants and facility managers are exposed to management risks during the ongoing operation of a property.	IMMOFINANZ follows a clear externalisation strategy with regard to management risks.
<b>Portfolio and valuation risks</b>	Portfolio and valuation risks include the factors that would lead to a change in the value of a portfolio.	Active portfolio management and the expertise from long-term market monitoring help IMMOFINANZ to identify potential problems at an early stage.
<b>Transaction risks</b>	Transaction risks are connected with the acquisition and sale of properties and include additional irregularities on the transaction market.	Process measures and regular monitoring of the transaction markets are designed to minimise existing risks. Market problems are managed with risk prevention measures.

## Features of the internal control system

IMMOFINANZ's internal control system (ICS) comprises a wide range of measures and processes to protect assets and to ensure the accuracy and reliability of accounting. The goal of the ICS is to prevent or identify errors and therefore allow for early correction. The ICS also supports compliance with major legal directives and the business policies defined by the Executive Board.

The ICS is integrated in all corporate processes. Its key features involve the appropriate segregation of duties, the application of the four-eyes principle in all order and invoice release procedures, compliance with internal guidelines (e.g. IMMOFINANZ's IFRS accounting manual), the review of accounting data by Group controlling

for correctness, plausibility and completeness, the integration of preventive and detective controls in processes as well as automatic key controls through specific software settings.

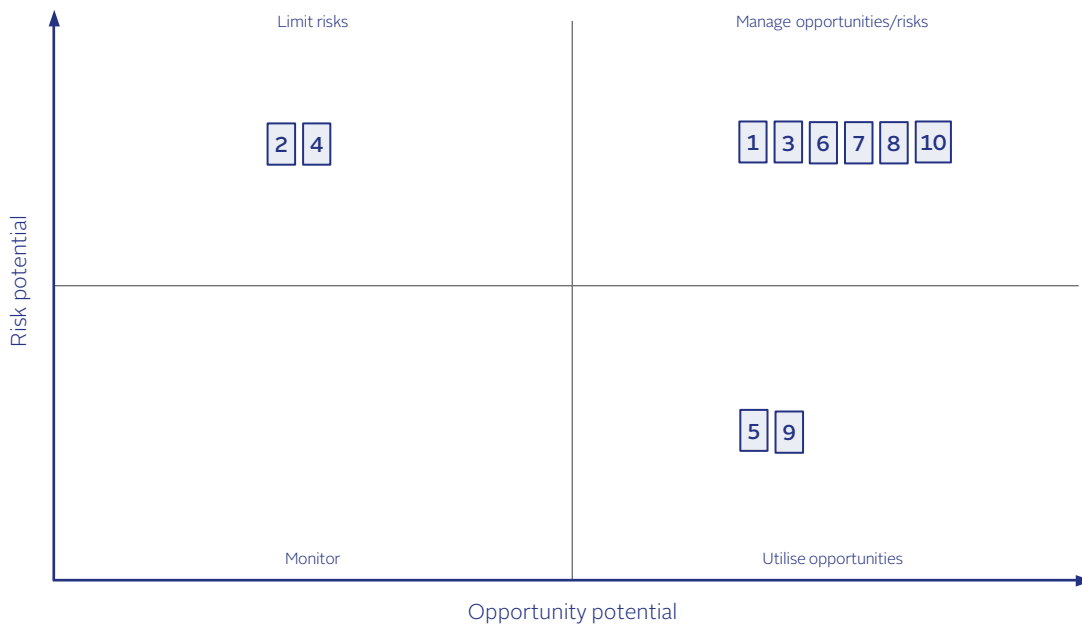
**Monitoring by internal audit**

Internal audit is responsible for the independent review of the effectiveness of the ICS and, in this way, contributes to its quality assurance. This department also evaluates the effectiveness of risk management and supports its continuous improvement. Based on an annual audit plan approved by the Supervisory Board, the internal audit department independently and regularly reviews operating processes and business transactions. The priorities for this schedule are defined in accordance with risk criteria and organisational goals.

The results of the audits are reported to the IMMOFINANZ Executive Board on a regular basis and to the Supervisory Board twice each year. As part of an annual report, the internal audit department explains its activities and summarises the major audit areas and results.

**Opportunity and risk position in 2021**

**Overview of opportunities and risks as of 31 December 2021**



**Risks arising from climate change (1)**

Real estate is responsible for roughly 40% of global greenhouse gas emissions and, consequently, public interest in reaching climate neutrality in this sector is high. IMMOFINANZ takes its responsibility seriously and continued to focus intensively on this issue during the 2021 financial year. As a result, the Net Zero Emission Strategy was introduced towards year-end. It defines the course that should allow IMMOFINANZ to attain climate neutrality throughout the entire Group by 2040. This strategy includes numerous individual measures and also sets individual focal points for innovation and digitalisation. To reach these goals, IMMOFINANZ plans to offer new services in the future which will require digital solutions for their implementation. The real estate branch is currently in the midst of a disruptive development and business models will change significantly in the coming years.

IMMOFINANZ's standing investment portfolio was the subject of an extensive review in 2021, which identified conventional branch risks as well as opportunities for optimisation in regard to energy. A few, but highly effective measures can help the company reach its goal and achieve a 60% reduction in greenhouse gas emissions by 2030. These measures include the exit from fossil energy carriers as well as the electrification of the portfolio and the use of sustainable sources to meet energy requirements. Given the economies of scale, IMMOFINANZ is optimistic that the costs for the necessary technologies will continue to decline. The Net Zero Emission Strategy will be implemented in agreement with the requirements of the European Union's Taxonomy Regulation, which will lead to a steady increase in the share of "green" revenues and costs for the company in the next years.

Detailed information on the identified individual risks is provided under the following points: valuation risks, energy efficiency, and climate and environmental risks.

### **COVID-19 (2)**

The risk position in 2021 was still influenced by the COVID-19 pandemic and its impact on the real estate sector and the entire economy. In the retail business, the government-ordered temporary shutdown of commercial enterprises had a negative effect on rental income. The VIVO! shopping centers were hit harder than the STOP SHOP retail parks, which have very limited common areas and focus on everyday, cost-efficient products. The office business was not affected by the government-ordered, temporary shutdowns, but most of these tenants followed the call to introduce home office as a pandemic containment measure. Tenants received support in returning to work with back-to-office plans that included room concepts, distance guidelines, disinfection, protective measures and access rules.

The growing momentum of vaccination campaigns led to the easing of restrictions in the core markets which, in turn, benefited retail tenants. Containment measures focused less on business closings as the year progressed. Whereas roughly 48% of IMMOFINANZ's retail space was still affected by temporary shutdowns at the end of March 2021, this level had fallen to only 15% by the end of November despite a further lockdown period. All retail areas have been gradually reopened since then. After the emergence of the more contagious omicron variant of the coronavirus in the first quarter of 2022, experts now see an imminent end to the pandemic. The expected long-term consequences of the COVID-19 pandemic include, among others, changes in consumer behaviour and in the modern working world which could have an influence on IMMOFINANZ's property solutions. In the retail business, this could lead to more conscious purchasing behaviour as well as the avoidance of public spaces and stronger use of online retailing. The office business could see a change in the demand for space due to the increased use of home office. With its cost-efficient STOP SHOP and VIVO! retail concepts and high-quality, innovative office solutions, the IMMOFINANZ Executive Board believes the company is well positioned for these possible changes in operating conditions.

### **Macroeconomic conditions (3)**

The COVID-19 pandemic remained the dominant factor in 2021 and had a significant negative influence on business activity during the first months of the year. The progress of vaccination campaigns led to the easing of restrictions and strong economic recovery. Driven by catch-up effects, demand soon exceeded the available supply. However, problems in global supply chains combined with the growing demand for energy carriers led to a noticeable upturn in inflation. The economic recovery had a positive influence on IMMOFINANZ's retail portfolio, but the higher inflation rates led to an increase in the interest curve on the long end. The resulting increase in expected returns will influence property valuation over the medium term and increase the risk of write-downs.

It is currently impossible to estimate the geopolitical developments surrounding the Ukraine crisis, but there is a risk of a substantial, long-term influence on IMMOFINANZ's commercial success.

**Legal proceedings (4)**

IMMOFINANZ has settled numerous, very old legal disputes in recent years. The court proceedings over restitution demands for the VIVO! shopping centers in Cluj and Constanța, Romania, are still in progress. There were no decisive changes in these proceedings during the past year.

**Investments (5)**

IMMOFINANZ AG acquired 19,499,437 bearer shares in S IMMO AG through share purchase contracts dated 18 April 2018. The transaction closed on 21 September 2018. The S IMMO share is listed in the Prime Segment of the Vienna Stock Exchange and is therefore exposed to market price risks. This material investment is included in the consolidated IFRS financial statements at equity. As of 31 December 2020, the carrying amount of the S IMMO investment equalled EUR 363.6 million, or 5.3% of IMMOFINANZ's total assets. The significant improvement in the price of the S IMMO share in the first quarter of 2021 led to the revaluation of this investment. The book value equalled EUR 514.8 million as of 31 December 2021, or 7.4% of IMMOFINANZ's total assets. This investment was not financed externally.

**Valuation risks (6)**

The valuation of IMMOFINANZ's properties by CBRE in 2021 also focused on ESG issues. Numerous aspects, for example risks arising from climate change, were examined in addition to the social added value of the properties and compliance with human rights. IMMOFINANZ will adapt its properties to meet the climate change through measures like thermal refurbishment, the digitalisation of building technology and many other steps. From the viewpoint of risk assessment, this will counteract the risks associated with rentals, e.g. a decline demand or occupancy, as well as a loss of value in the standing investment portfolio. IMMOFINANZ intends to create the potential for an increase in the value of properties with high ESG standards as part of its sustainable portfolio strategy. That will also create the basis for suitable properties to generate even better rental performance in the coming years.

Revaluation results for the 2021 financial year totalled EUR 121.0 million.

**IT risks (7)**

IMMOFINANZ has set a goal to digitalise its corporate processes up to the customer. These projects are connected with corresponding risks, which are being addressed with professional project management. The projects scheduled for 2021 were realised as planned, with the issues of data protection and cybersecurity representing a focal point of risk analysis. IMMOFINANZ not only addresses these issues through the involved systems, but also gives high priority to employee training. Corporate processes are also being optimised to guarantee the highest possible level of security. Based on the previously established procedures, the risk to critical corporate processes can be considered low.

**Energy efficiency (8)**

Energy efficiency in properties is crucial for the improvement of the Group's CO<sub>2</sub> footprint. IMMOFINANZ's goal is to identify opportunities for savings and continuously improve the portfolio with regard to energy efficiency and the best possible contribution to climate protection. Measures to achieve climate neutrality by 2040 were defined and are currently being implemented. These goals will be reached through the exit from fossil energy carriers with parallel electrification of the portfolio. The properties will also be optimised as regards the in-house production of energy to reach a maximum level of energy self-sufficiency. These measures, which are related to the implementation of the EU's Taxonomy Regulation, will strengthen the sustainable focus of IMMOFINANZ's portfolio. Energy-efficient properties and activities considered "sustainable" under the EU Taxonomy will create numerous opportunities, for example in the areas of tenant satisfaction, financing, capital market positioning and the contribution to climate protection.

**Climate and environmental risks (9)**

In view of the high share of global greenhouse gas emissions from the real estate sector, IMMOFINANZ is committed to supporting climate protection. The ambitious Net Zero Emission Strategy was therefore developed and is currently in implementation. The related measures will be particularly efficient in the retail portfolio due to the high degree of standardisation. In the office business, the most appropriate measures from the existing catalogue must be identified and implemented. The Net Zero Emission Strategy will prevent the rising costs from CO<sub>2</sub>-pricing and the related negative effects. Moreover, the over-achievement of legal requirements could create additional opportunities for an increase in the value of the standing investment portfolio.

An external climate audit was carried out to identify the effects of climate change on IMMOFINANZ's real estate. The results flowed into the definition of targeted measures for each property. A differentiation was made between elementary events from the long-term effects of climate change. These events (flooding, forest fires, rising sea levels, storms and earthquakes) were previously already managed by the public sector. Existing protective measures were analysed and, where necessary, actions at the property level were evaluated and/or the risk was referred to the public authorities. Measures were also implemented at the individual property level to handle the long-term effects of climate change (rising temperatures and irregular precipitation). These measures range from the adaptation of the building shell or technical facilities to rainwater storage.

**Portfolio risks (10)**

The occupancy rate in the standing investment portfolio remained constant at a high 95.1% as of 31 December 2021 (31 December 2020: 96.0%). The retail properties were practically fully rented at 98.7%. The occupancy rate in the office portfolio equalled 90.6% at the end of December 2021 (31 December 2020: 93.7%), whereby the decline since the beginning of the year was caused primarily by a single tenant in Germany who was severely affected by the COVID-19 pandemic and by reclassifications in Romania (larger modernisation projects and IFRS 5).

IMMOFINANZ's active development projects (properties under construction) have a combined carrying amount of EUR 460.8 million (31 December 2020: EUR 300.8 million). The outstanding construction costs for these projects totalled EUR 216.2 million at year-end 2021 (31 December 2020: EUR 62.2 million). Pipeline projects, including real estate inventories, had a carrying amount of EUR 180.3 million as of 31 December 2021 (31 December 2020: EUR 191.8million).