

Risk Report

As an international real estate investor, property owner and project developer, IMMOFINANZ Group 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 IMMOFINANZ's 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 overall risk situation for the company and for the entire market in 2023 was influenced by the challenging political and macroeconomic environment. The major risk categories are discussed in greater detail at the end of this risk report.

The procedures for handling risk are anchored in a Group-wide risk management system which is integrated in operating 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 2023) and reports to the Executive Board on the results of this analysis.

Evaluation of the functionality of the risk management system

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna, evaluated the effectiveness of IMMOFINANZ's risk management system during the period from December 2023 to February 2024. 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 Ernst & Young indicated that the risk management system instituted by IMMOFINANZ as of 31 December 2023 – based on the COSO comprehensive framework for corporate risk management – is functional.

Structure of risk management

The goal of risk management at IMMOFINANZ 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](https://www.coso.org)

Responsibilities and reporting paths

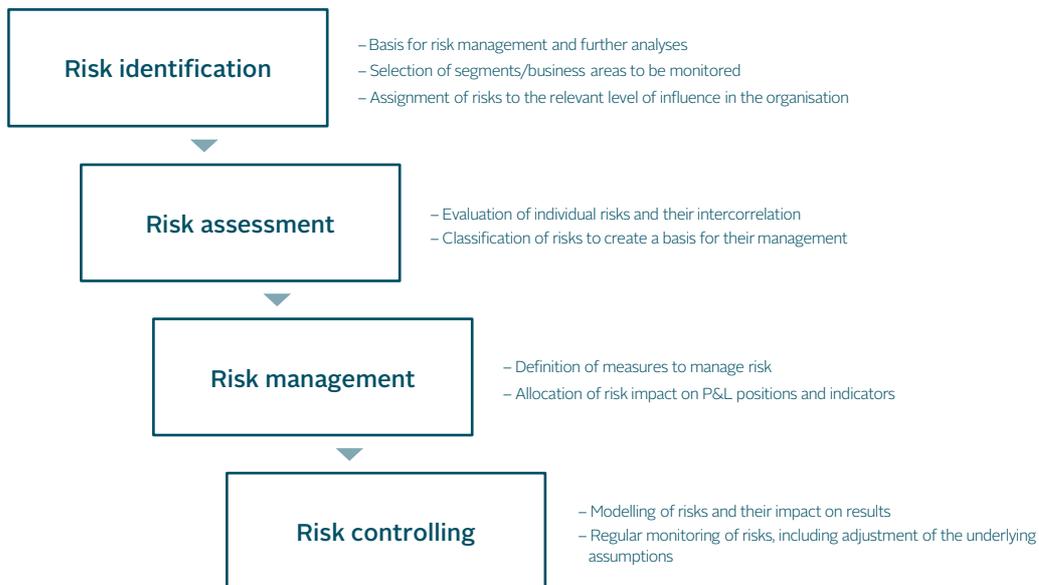


The Executive Board is responsible for risk management in the IMMOFINANZ and defines the corporate goals and related risk strategy.

Risk management is a staff function which reports directly to the Executive Board. 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 country organisation level, 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 and country managers. 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 opportunities and 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
Business risks	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 consolidated financial statements).	The continuous monitoring of asset and liability positions as well as proactive analyses form the basis for strategic measures to safeguard the company's financial strength.
	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.
Risks of improper business practices	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.
Social risks	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.
Environmental and climate risks	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 the planned 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.
Project development risks	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 negative 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.
Asset management risks	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.
Portfolio and valuation risks	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.
Transaction risks	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 within the framework of relevant corporate processes, 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.

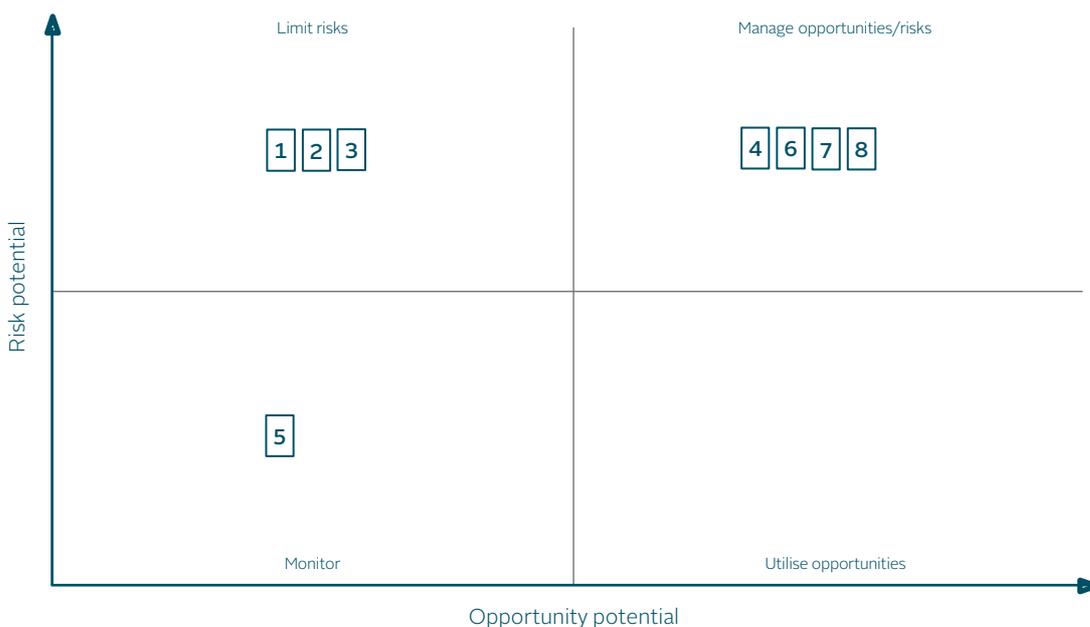
Monitoring by internal audit

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 2023

Overview of opportunities and risks as of 31 December 2023



Macroeconomic conditions (1)

The 2023 financial year was influenced by an increase in political tensions throughout the world. Armed conflicts resulted in individual cases and were accompanied by a negative impact on raw material markets and the disruption of international trading and logistics routes. The consequence was a further deterioration of the already weakening global economy. At the present time, the expansion of or increase in these conflicts carries the greatest inherent potential for risk. IMMOFINANZ Group is not directly affected by this potential development, but a possible impact on financial and transaction markets or the demand for rental properties cannot be excluded. These developments are the focus of regular monitoring and the best possible hedging of the related risks by IMMOFINANZ Group. Specific components of these risks are discussed in detail in the following paragraphs.

Financial market risks (2)

The war in Ukraine triggered a sharp rise in inflation during 2022. The European Central Bank as well as central banks outside the eurozone reacted with a rapid and sizeable increase in interest rates during 2023, which continues to have a strong negative impact on the real estate branch today. On the one hand, this policy shift led to a substantial increase in interest expense for this business sector. IMMOFINANZ Group is continuing its hedging strategy in this context. The hedging-quota for financial liabilities equalled 95.1% at year-end 2023 (31 December 2022: 87.0%). On the other hand, borrowing has become much more difficult for the business sector. The after-effects were bankruptcies by real estate companies across Europe. The changing framework conditions on the capital markets reflected these effects, also in the area of asset allocation – which is discussed in greater detail under the following point.

Liquidity risk on the real estate market (3)

The last few years were characterised by a low-interest policy. The prevailing negative interest rates led to the investment of enormous volumes of capital in real estate due to the lack of viable alternatives. This rising demand supported the construction industry and drove construction to new highs. The demand for properties in good locations frequently exceeded the offering by far. The following sharp rise in interest rates has changed the framework conditions on financial markets, and investors are again able to choose from a larger range of alternatives. Even government bonds have become interesting for institutional investors due to the higher interest rates. The result has been a substantial decline in buyers' interest for real estate. IMMOFINANZ Group reduced its property developments early on and did not start any speculative new construction projects. The current expansion of the STOP SHOP retail parks in Croatia will continue as planned. The completed retail parks are fully rented on opening, and IMMOFINANZ Group therefore views the related risk as manageable. IMMOFINANZ Group is only affected by the decline in transaction volumes to a very limited extent. Its sale programme was announced and launched already in June 2022. IMMOFINANZ Group (including S IMMO) sold properties with a combined value of roughly EUR 751 million in 2023. This programme covered, in particular, the sale of office and residential properties in Germany by S IMMO, as well as the Bureau am Belvedere office building in Vienna, a plot of land in Romania and land in Turkey by IMMOFINANZ. In addition, IMMOFINANZ sold six office properties and a hotel tower with gross rentable space totalling roughly 130,000 sqm to S IMMO. All these measures are part of the focused portfolio strategy that will form the basis for IMMOFINANZ to realise synergies and increase efficiency together with S IMMO.

Risks from climate change (4)

The real estate sector is responsible for roughly one-third of global energy consumption and greenhouse gas emissions. Major efforts are therefore directed to reducing this component through new regulations. IMMOFINANZ Group has gone to great lengths in recent years to reduce the greenhouse gas emissions from its portfolio. Over the coming years, the company plans to increase its focus on measures to improve energy efficiency. The energy efficiency of buildings – together with energy generation – also plays a central role in the EU Taxonomy Regulation. For this reason, IMMOFINANZ Group has been installing photovoltaic equipment on its properties and plans to continue doing so in the coming years. This important contribution to decarbonisation is an integral part of the company's ESG strategy.

In the area of climate risks, modelling shows a stronger increase in the temperatures in the IMMOFINANZ Group core markets as well as a greater probability of longer dry periods. Both of these trends are integrated in building refurbishment projects and flow into project development analyses. Properties near the coasts in Poland and Croatia – and here, only a limited number of retail parks are involved – are exposed to the risk of rising sea levels. Natural hazards represent a further aspect since the models forecast an increasing danger of forest fires due to the longer dry periods. This phenomenon is already visible in the Mediterranean region and will spread northward in the coming years. The related risks are addressed with construction measures that include a focus on the design and expansion of green areas and, in addition, all IMMOFINANZ Group properties are insured against natural hazards.

IMMOFINANZ Group also sees opportunities in the area of biodiversity. Future plans include the replacement of water-intensive grassy areas with planting that supports biodiversity. These areas not only save water and energy but require less care and can help to achieve a slight reduction in operating costs.

Legal proceedings (5)

As in the previous years, IMMOFINANZ Group is involved in restitution claims related to the VIVO! locations in Cluj and Constanța. The proceedings related to the VIVO! Cluj resulted in a final judgment that rejected IMMOFINANZ Group's ownership title to the land. For the shopping center itself, all instances to date have confirmed IMMOFINANZ's ownership. In the legal proceedings over the VIVO! Constanța, witnesses have been called.

Valuation risks (6)

The inflation rates in 2023 were the highest since the early 1970's. Central banks in the IMMOFINANZ Group core countries reacted by raising interest rates which, in turn, has increased the attractiveness of alternative investments as well as investors' expectations of higher returns from real estate. The result has been an increase in yields in nearly all submarkets. These rising expectations are reflected in lower market values and lead to the necessary recognition of write-downs.

An analysis of the successful transactions in 2023 shows a significant increase in the demand for EU taxonomy-aligned properties and properties with a strong focus on ESG aspects. IMMOFINANZ Group is working to bring its entire property portfolio up to taxonomy-aligned standards. The necessary technical measures range from the installation of photovoltaic equipment to thermal refurbishment and the digitalisation of building technology. This will prevent rental risks such as a decline in demand or rentals and counter the loss of value in the standing investment portfolio. As part of its sustainable portfolio strategy, IMMOFINANZ Group wants to create an upward valuation potential for properties with high ESG standards – which will also improve the rental performance of these properties in the coming years.

Revaluation results totalled EUR -376.8 million in 2023.

IT risks (7)

Digitalisation is also increasing in the real estate sector. Business processes must be accelerated and become more transparent to meet the growing reporting requirements. In this connection, IMMOFINANZ Group is currently working to upgrade its ERP system. Properties must also become "smarter" in the future. Electronic controls help to save energy, reduce emissions and lower operating costs. However, the digitalisation of standing investments is connected with additional costs which require appropriate resources.

IMMOFINANZ Group has taken extensive precautions to protect its IT systems and places high priority on employee training. In addition, corporate processes are being optimised to guarantee the highest possible level of security. Based on the procedures already established, the risk to critical corporate processes can be considered low.

Portfolio risks (8)

The occupancy rate in IMMOFINANZ Group's standing investment portfolio equalled 92.2% as of 31 December 2023 (31 December 2022: 92.9%). The retail properties were practically fully rented at 98.7% (31 December 2022: 98.8%). In the office properties, the occupancy rate remained stable at 88.4% (31 December 2022: 88.1%).

IMMOFINANZ Group's active development projects (properties under construction) have a combined carrying amount of EUR 61.5 million (31 December 2022: EUR 126.6 million). The outstanding construction costs for these projects totalled EUR 56.2 million at the end of 2023 (31 December 2022: EUR 47.6 million). Pipeline projects, including real estate inventories, had a carrying amount of EUR 195.8 million as of 31 December 2023 (31 December 2022: EUR 229.2 million).