

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 overall risk situation for IMMOFINANZ and for the entire market in 2022 was influenced by the challenging macroeconomic environment. The major risk categories are discussed in greater 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 2023) and reports to the Executive Board on the results of this analysis.

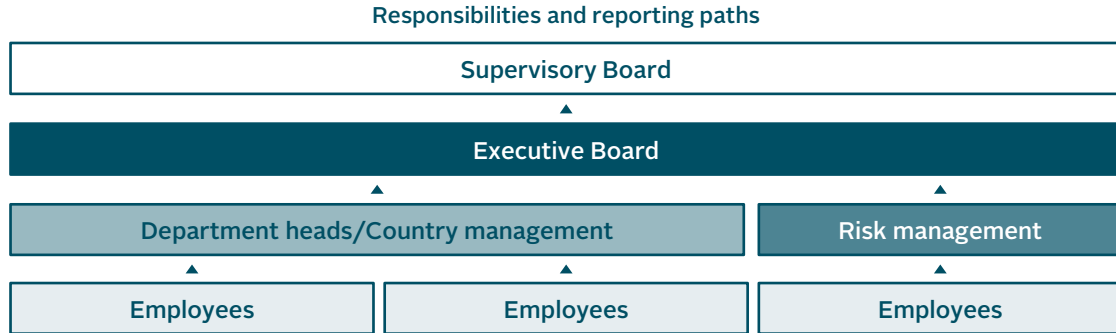
Evaluation of the functionality of the risk management system

Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna, evaluated the effectiveness of IMMOFINANZ's risk management system during the period from December 2022 to January 2023. 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 2022– based on the COSO comprehensive framework for corporate risk management – is functional.

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

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.

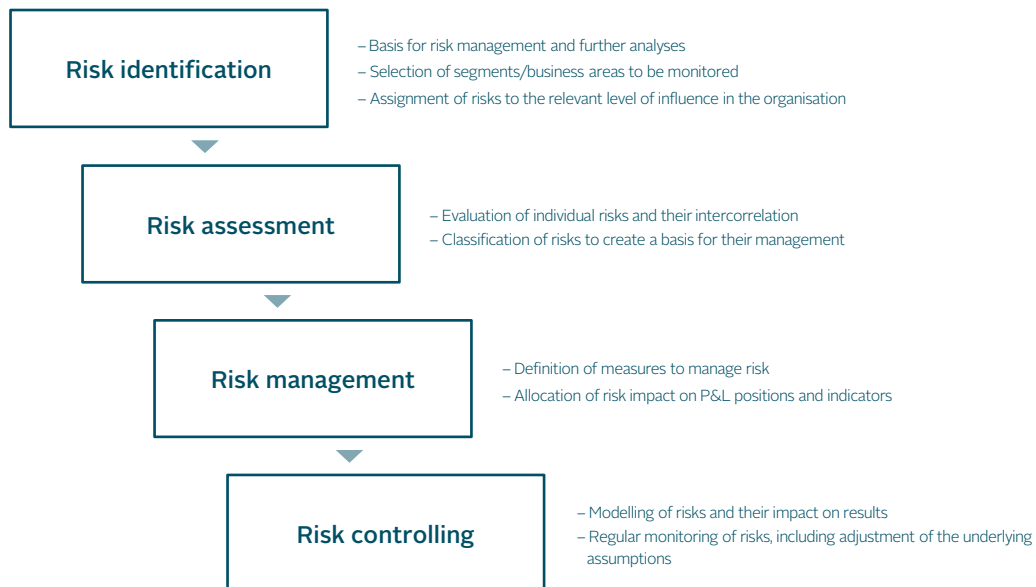


The Executive Board is responsible for risk management in the IMMOFINANZ and defines the corporate goals and related risk strategy.

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 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 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 the 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.

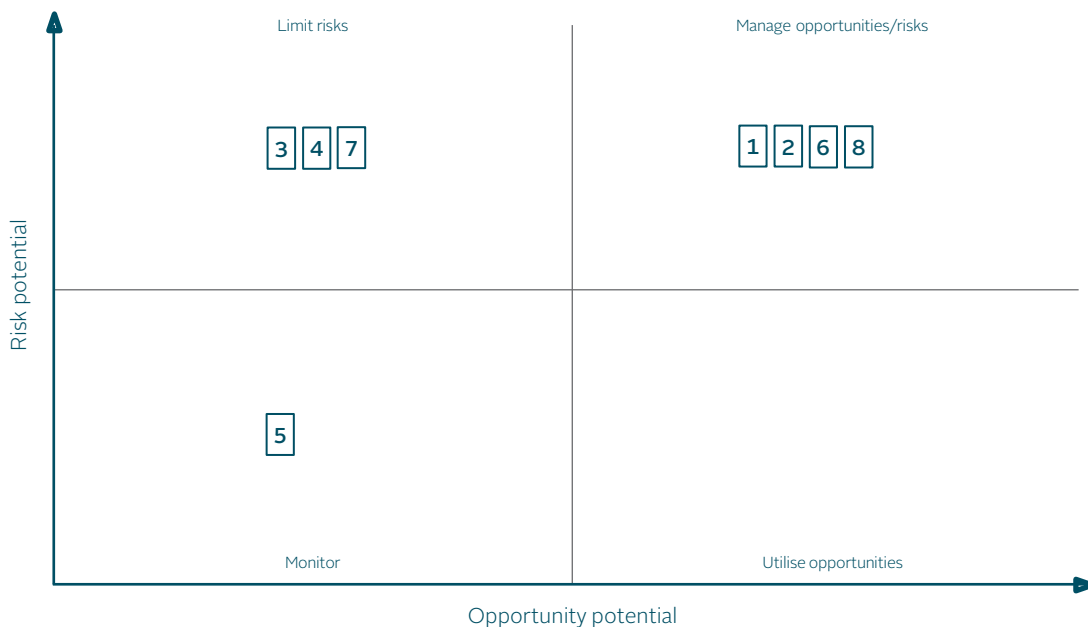
Monitoring by internal audit

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 2022

Overview of opportunities and risks as of 31 December 2022



Risks from climate change (1)

Real estate is particularly energy-intensive during construction and in operation. The sharp rise in energy prices triggered by the Russian invasion of Ukraine at the end of February 2022 has therefore had a significant negative effect on IMMOFINANZ's earnings. However, this development shows the opportunities and efficiency improvements that can be achieved with more energy-efficient buildings. The energy efficiency of buildings – together with the generation of energy – also plays a central role in the EU Taxonomy Regulation. The installation of photovoltaic equipment on properties as well as the procurement and generation of green energy therefore represent integral parts of IMMOFINANZ's ESG strategy.

In the area of climate risks, climate modelling shows a stronger increase in the temperatures in IMMOFINANZ's 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 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, IMMOFINANZ has arranged for insurance to cover all its properties against natural hazards.

IMMOFINANZ 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 reduce operating costs.

Risks arising from political, social and legal requirements (2)

On 22 June 2022, the European Parliament approved the expansion of the European Emissions Trading Scheme (EU ETS) to include the commercial real estate sector. The parliamentary vote still requires the approval of the EU member states but will have a significant impact on the real estate industry in the future. IMMOFINANZ is working to hold the mandatory purchase of CO₂ certificates for future CO₂ equivalent emissions at a low level by improving energy efficiency and making an optimal contribution to reducing greenhouse gas emissions. Decarbonisation will be implemented as quickly as possible and represents part of the Net Zero Emission Strategy presented in 2022. This strategy is intended to prevent cost increases from CO₂ pricing and the related negative effects as far as possible. IMMOFINANZ also sees this as an opportunity to realise additional value potential in the standing investment portfolio.

Macroeconomic conditions (3)

The inflationary spiral which began at the end of 2021 was further fuelled by the Russian invasion of Ukraine and the related surge in energy prices. The European Central Bank reacted with an end to its low-interest policy and a gradual increase in interest rates. This policy shift has resulted in substantially reduced growth expectations, although from today's perspective experts do not expect a slide into a full recession, and has changed economic conditions. The consequences for IMMOFINANZ include significantly higher energy costs as well as higher refinancing costs over the medium term. The office business has also seen an increase in vacancies on selected markets during recent quarters, and this trend is expected to continue. The impact of rising interest rates on the real estate branch includes a decline in new construction and market prices. Real estate is no longer the only alternative for investors' asset allocation in the current interest rate climate, and that is expected to lead to a decline in transaction volumes.

Legal proceedings (4)

IMMOFINANZ has settled numerous, very old legal disputes in recent years. The court proceedings over restitution claims and the retransfer of shares 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 in April 2018 and increased this investment by 17,305,012 shares to 50% plus one share in December 2022. The accounting method applied to S IMMO was therefore changed from equity accounting to full consolidation as of 31 December 2022. As an international real estate investor, property owner and project developer, S IMMO is exposed to the same general branch-specific risks in its business operations as IMMOFINANZ. The risks from S IMMO's operating activities will be assigned to the respective risk categories in the future, and investment risk will only represent investment risk in the narrower sense of the term. There were no investment risks in the narrower sense of the term as of 31 December 2022. For information on S IMMO's risks, see the S IMMO 2022 annual report.

Valuation risks (6)

Supply chain problems and the sharp rise in energy prices were responsible for the highest inflation rates in 50 years during 2022. Central banks across the world 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 investments. Greater downward pressure on property values can therefore be expected in the coming quarters.

The importance of ESG aspects in property valuation is also increasing. Sustainable investments and construction measures that mitigate the effects of climate change now represent an integral part of real estate valuation. IMMOFINANZ will adapt its properties to climate change with measures that include thermal upgrading, the digitalisation of building technology and numerous other steps. 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 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 -105.7 million in 2022.

IT risks (7)

IMMOFINANZ has set a goal to digitalise its corporate processes up to the customer. The change in the majority ownership of IMMOFINANZ led to the strategic reorientation of digitalisation during the past year, and Group-wide solutions are currently in preparation. The risks connected with these projects are being addressed with professional project management as far as possible.

The issues of data protection and cybersecurity remained a focal point of risk analysis in 2022. IMMOFINANZ not only addresses these issues through extensive precautions, but also 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's standing investment portfolio declined slightly but remained high at 94.3% as of 31 December 2022 (31 December 2021: 95.1%). The retail properties were practically fully rented at 98.8% (31 December 2021: 98.7%). In the office properties, the occupancy rate fell marginally to 88.1% (31 December 2021: 90.6%).

IMMOFINANZ's active development projects (properties under construction) have a combined carrying amount of EUR 126.6 million (31 December 2021: EUR 460.8 million). The outstanding construction costs for these projects totalled EUR 47.6 million at the end of 2022 (31 December 2021: EUR 216.2 million). Pipeline projects, including real estate inventories, had a carrying amount of EUR 159.3 million as of 31 December 2022 (31 December 2021: EUR 180.3 million).