



Risk Management Handbook

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Foreword

Dear colleagues,

As Senior Management we are responsible for a good corporate governance system comprising the four main components:

- (1) A risk management system (RMS);
- (2) A compliance management system (CMS);
- (3) An internal control system (ICS); and
- (4) Internal Audit (IR).

The Senior Management must devise suitable measures, especially the establishment of a monitoring system, to identify any threats to the continued existence of the company as early as possible. We have succeeded in doing so in the past.

The risk management system has been tailored to the size and requirements of the ADLER Group. This policy and the group-wide risk catalogue set out to provide you with a guide that will enable you to develop a higher level of risk awareness and create a risk culture that is practised in real life so that we can identify, describe and assess risks. If the results of the assessment are outside the target range, countermeasures must be taken that enable the risks in question to be prevented or managed in the future. A distinction must be drawn here between risks that absolutely must be avoided in order to protect the company from harm and business risks that can be taken intentionally to a certain extent with a high level of responsibility in order to utilise the opportunities that they may also represent for the company.

The most important aspect, however, is for you to understand how to respond properly as the risk owner in your area if you detect threats from previously known risks or identify new risks.

Berlin, March 2021

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1. Introduction

1.1 The risk management handbook (RMH)

In order to ensure that the risk management system (RMS) functions sustainably and independently of any individual and in order to verify that the obligations duties of the Senior Management, e.g. in accordance with Section 91(2) of the Aktiengesetz (AktG – German Stock Corporation Act) are fulfilled, it is necessary to maintain appropriate documentation of the measures, including the monitoring system. The following risk management handbook serves this purpose. It contains measures for establishing the system as well as the organisational regulations, such as:

- Statements on the importance of identifying risks to the Adler Group at an early stage
- Definition of risk fields that can lead to adverse impacts or developments that endanger the Group's continued existence
- Principles of risk identification and analysis as well as risk communication, especially the reaction to changes over time (risk management)
- Definition of responsibilities and tasks for identifying, analysing and communicating risks
- Regulations on reporting known and unmanaged risks to the Management Board and the relevant supervisory bodies as well as regulations on risk tracking
- Overview of the process-dependent and process-independent risk monitoring

The regulations of the RMH apply to all companies of the Adler Group from the time they are adopted by the Management Board. The risk management handbook was adopted by the Management Board in March 2021 and is effective for reporting as of December 31, 2020.

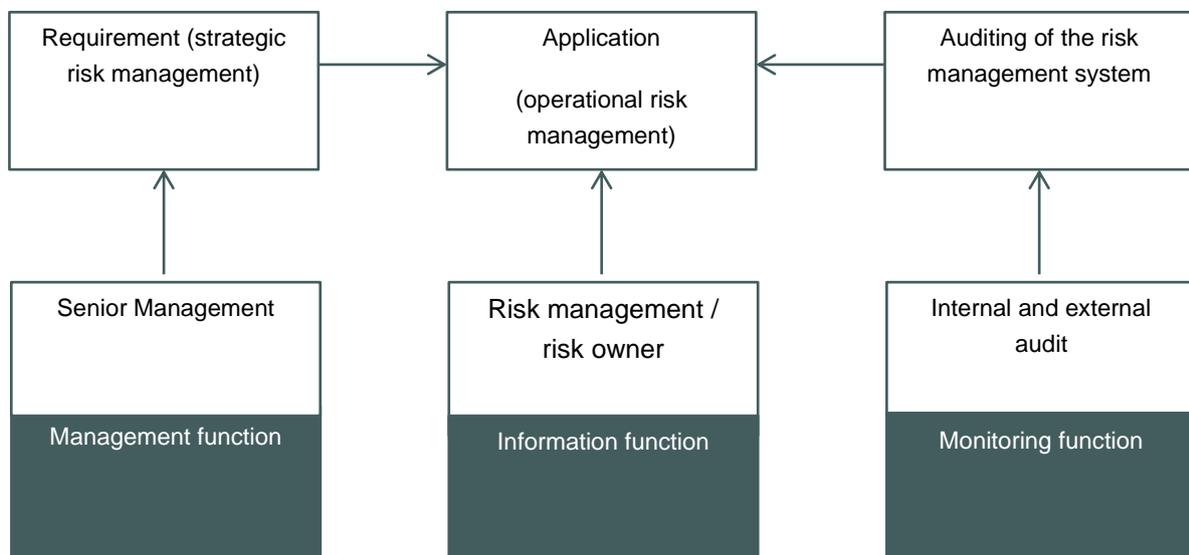
1.2 Functions of the risk management handbook

The general conditions, processes and structures of the risk management system of the Adler Group are regulated and documented in the risk management handbook. It is continually revised and amended by the central risk management and, if necessary (e.g. in the case of material or editorial changes) re-adopted by the Board of Directors.

In the RMH, the Senior Management formulates key statements on the **strategic** framework of the risk management and requirements for the **operational** risk management process. These statements and requirements are relevant for the implementation by the risk owners and the central risk management. As a guideline, the RMS thus performs a **steering function** for the Senior Management and its Management Team. Furthermore, the RMH serves as proof for the Senior Management that the statutory requirements for the establishment of an RMS have been fulfilled.

For the operational risk management organisation, the RMH has an **information function**, communicating the risk objectives, the desired risk behaviour, formal specifications such as tasks, areas of responsibility and risk reporting requirements, etc. In addition to performing this information function, the RMH as a guideline documents the obligation to implement the risk management on a continuous basis and thus forms an integral part of the group-wide corporate governance.

Furthermore, the RMH essentially **functions as a guideline** for the process-dependent and process-independent monitoring of the RMS by internal and external monitoring bodies (Audit Committee or Supervisory Board – if applicable-, Internal Audit and statutory auditors).



1.3 Content and structure of the risk management handbook

In addition to the general concepts, the RMH is divided into five important core areas:

- the strategic framework of the risk management system (RMS);
- the risk management system (RMS);
- the operational risk management process (RMP);
- the process controls and
- the continuing documentation

The RMH is supplemented by an appendix containing the supplementary documents and additional information for individual core areas.

1.3.1 The strategic framework of the risk management system

The risk strategy constitutes both a part of the corporate strategy of institutional investors and the fundamental basis for their risk management processes. The risk strategy formulated by the Senior Management within the framework of the strategic risk management naturally forms the starting point for the risk management process that has to be specifically designed. The risk strategy defines the fundamental approach of the company to risks on the one hand and, on the other, develops the broad concept of “risk” in detail in view of specific situations. Furthermore, the policies for the operational risk management are defined within the context of the risk strategy, which include the specification of the maximum loss thresholds (limits), which necessitate the compulsory initiation of risk management measures if they are breached, or tolerance limits, where a risk can be accepted if these are not breached.

1.3.2 The risk management organisation (RMO)

Identifying, analysing, managing and monitoring risks are tasks of the entire Group organisation. The Senior Management as well as the risk officers of the individual functions and subsidiaries have to ensure the fulfilment of these tasks in accordance with this guideline based on their fields of duties and areas of responsibility. Central risk management (cRM) undertakes the co-ordination of the operational risk management process here.

1.3.3 The operational risk management process (RMP)

Risk identification

The risk identification involves the complete recording of all (material) risks of the corporate activities, including their interdependencies. Both current and forecast data is used here to perform the **early warning function** of the risk management. The risk identification provides a basis of information for the process phases below.

Risk assessment

The risk analysis is carried out by means of targeted measurement and evaluations of the risks that have been identified. It is made on the basis of a scoring model, with the help of which impacts on assets, income and expenses, liquidity and image of the Adler Group can be directly measured. In addition, it can be used to assess the relevance of the risks that have been measured in order to screen out significant risks.

The focus here is placed on compliance with **risk limits and thresholds**. A risk management system is thus created that ensures compliance with the maximum permissible risk positions defined by the Senior Management.

Risk management

The goal of the risk management is to control all material potential for damage and loss by employing targeted countermeasures. The intention behind this is to guarantee that a desired risk exposure is complied with and a maximum defined risk level (risk limit) is not exceeded. Measures for managing risks are therefore instituted for risks that have been assessed as significant by the risk assessment. In general, the strategic alternatives

- prevention,
- mitigation,
- rollover and
- acceptance

are available for managing risks.

Risk monitoring

Risk monitoring is used to review whether the measures taken as part of the risk management have had the desired effect and whether the risk exposures under observation comply with the defined target values after management measures have been implemented. The risk control thus essentially represents a target-performance comparison. If the risk control measures have not produced the desired result, the causes of this have to be analysed and adjustment measures have to be initiated in addition in this phase. It must be ensured here that the desired target exposure is achieved as promptly as possible.

Communication

Together with its risk reporting, the risk communication represents an important source of information and form of documentation at the Group, regional and portfolio levels. The most important objective of the risk reporting is to ensure that the decision-makers are provided with information on risk-related developments that is complete, correct and early from the perspective of materiality, so that they are enabled to promptly initiate effect, risk mitigation measures. The risk communication draws a distinction between standard reports, reports on demand, ad hoc reports and external reports.

1.3.4 Process control and documentation

The operational risk management process specified above, consisting of the risk identification, analysis, management and monitoring, requires monitoring that is independent of the process (process control), which has to be conducted simultaneously alongside the process. It is used to assess the effectiveness

and the efficiency of the risk management process per se in order to identify ideas for potential improvements to the process and to implement adjustments.

The documentation also has to be established on an ongoing basis accompanying the process and includes both the individual process phases and the risk management process per se. For the process phases, it is the decisions and resulting outcomes that have to be recorded in writing, while for the overall process it is its structure and the design of its content. This recording ensures both that the risk management measures are complied with and that a reliable basis is created for internal investigations (e.g. by Internal Audit) and external investigations (e.g. as part of audits of annual financial statements or audits conducted by the authorities).

1.4 Maintenance of and changes to the handbook

The risk management system (RMS) of the Adler Group is subject to a continual improvement process. Any change to the RMS requires a corresponding amendment in the chapter of the handbook that is affected. The amendment is documented in the change log provided for this purpose. Changes of this kind also have to be documented. Changes to the handbook are made by central risk management. If material changes are made, the handbook has to be re-adopted by the Board of Directors of the Adler Group.

2. Basic principles

2.1 Objectives and tasks of risk management

Risk management encompasses all organisational provisions and activities aimed at the systematic and regular group-wide implementation of the risk management process. It also includes support for this process in the form of appropriate instruments and methods with the aim of safeguarding the long-term existence of the company, developing scope for action, achieving the planned corporate objectives and, in particular, reducing risk and capital costs. The implementation of the RM is thus the task of the company management. It encompasses planning, implementation, decisions on avoiding or intentionally entering into risks and monitoring of suitable risk mitigation measures.

Objectives

- Safeguarding the company's long-term existence (e.g. Section 91(2) AktG)
- Mapping scenarios and future development and their implications for the corporate and risk objectives
- Monitoring the corporate strategy from a risk perspective and steering it by means of appropriate / necessary measures
- Optimising and monitoring the risk-reward ratio
- Preventing the suspicion of organisational negligence
- Facilitating the management reporting (and CSR reporting) and its auditing by the statutory auditor

Tasks

- (Continued) development of the risk culture
- Derivation of a risk strategy and elaboration using risk objectives
- (Further) development of risk policy principles
- Definition of the risk management organisation (organisational structure) and the risk management process (operational structure)
- Measures to manage risk and monitoring of these measures
- Process control and documentation (including risk management handbook, risk map, controlling of measures, etc.)
- Control of material risks

2.2 Legal basis

In addition to the possibilities presented from a business perspective, it is necessary to take the legal requirements (MUST) and the recommendations (SHALL) into consideration in order to design a practice-based risk management system. The board of directors of a Luxembourg S.A. committed to acting in the best interests of company, which includes avoiding non-compliance and foreseeable risks. The audit committee monitors, among other things, the effectiveness of the company's internal quality control and risk management systems. The board of directors reviews and assesses the main risks quarterly, as well as the associated processes implemented for their controls and the resulting measures.

The key legal requirements relating to risk management that are relevant for the Adler Group are therefore presented below. They include in particular legal requirements of the AktG/MAR/BörsenG/WpHG, while the German Corporate Governance Code, the Initiative Corporate Governance of the Deutsche Immobilienwirtschaft e.V. (German real estate industry) and of the Deutsches Rechnungslegungsstandards Committee (DRSC – German Accounting Standards Committee) are also taken into consideration. With its PS980 series of auditing standards, the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW – Institute of Public Auditors in Germany) has additionally created the possibility for auditing the form and design of risk management and compliance management systems in terms of their appropriateness and effectiveness.

3. Strategic framework of the risk management system

3.1 Risk strategy and derivation of risk objectives

The risk strategy is derived by the Adler Group's Senior Management from the corporate strategy and lays down the general risk objectives and measures for achieving them. The implementation of the corporate strategy is thus supported by the risk strategy. The risk strategy is described in greater detail by the risk objectives in order to realise an appropriate risk-reward ratio and to ensure the risk-bearing capacity.

The risk strategy is embodied in the principles of the risk policy and secured by the specification of the operational risk management process.

3.2 Risk policy principles of the Adler Group

High-risk business transactions are analysed and managed by means of these principles of the risk policy. Furthermore, the principles determine the company's risk landscape and strategy.

The risk policy principles of the Adler Group regulate the general conditions for fulfilling the requirements for proper, forward-looking risk management that is standardised throughout the group and for its full integration in the corporate strategy. It applies to all group units and joint ventures that are under the economic control of the Adler Group.

The organisational anchoring of the risk management in the operationally and strategically oriented controlling enables an active and end-to-end design of the risk management system that is integrated with the planning and reporting processes.

- Our risk strategy is focused on safeguarding the existence of the company and additionally on increasing the enterprise value over the long term.
- The success of a company depends on identifying opportunities and recognising and assessing the risks related to them.
- The aim is to make optimum use of opportunities while being fully aware of, bearing the responsibility for and proactively managing the business risks if an appropriate increase in value can be generated overall.
- Risks that put the company's existence at risk must be avoided. Efficient, forward-thinking risk management thus serves the interests of the investors and other stakeholder groups.

- The goal of the Adler Group's risk management is to increase the awareness of risk at all levels of the company and to establish a values-based risk culture.
- Risks and opportunities are processed transparently in the group and incorporated systematically in business decisions.
- The risk appetite is defined by the Senior Management and integrated in the ongoing risk management system.
- Risks endangering the company's existence must be reported immediately to the Senior Management. Risks that reach defined critical thresholds are subject to the requirement to be reported immediately to the relevant hierarchical risk responsibility level. Immediate preventive measures have to be initiated here.
- The scope and probability of occurrence of existing risks have to be reduced to a sensible level by control measures and instruments. Employees and colleagues have to be informed by the risk owners

4. The risk management organisation

The risk management organisation is based on the organisational structure and functions and responsibilities at the Adler Group respectively. It is essentially composed of the Senior Management, central risk management (department of Compliance & Risk Management), the risk owners and a monitoring function (Internal Audit (external)).

4.1 The role and responsibilities of the Senior Management

The Senior Management has the overall responsibility for the adequate establishment, implementation, functioning and further development of the risk management system. It has the responsibility for the strategic risk management and formulates the principles of the risk policy on the basis of the risk strategy. It is additionally responsible for creating a suitable risk management organisation. The preparation and implementation of this group policy in the form of a risk management handbook provides central risk management and the relevant risk owners with the necessary information and instructions concerning their roles and responsibilities. The Senior Management informs the Board of Directors Board of the risk situation and the development of risk at the Adler Group on a regular basis.

4.2 The role and responsibilities of central risk management

Central risk management (cRM) (here: part of Compliance & Risk Management) is assigned to the Senior Management as a staff office. The cRM provides support in the continual identification, analysis and prevention of (future) developments that endanger the company and its continued existence. The Compliance & Risk Management division is supported in the strategic performance of its activities by external experts. cRM's task essentially consists in co-ordinating the operational risk management process and acting as a link between the various risk owners and the Senior Management. All information and data relevant for risk management, especially in view of breaches of limit values / risk limits (score values) are analysed and compiled here and countermeasures are subsequently recommended and elaborated with the risk owners. cRM thus serves the risk-based review (and design) of all group-wide business fields as well as the further development of an efficient and effective risk management process, which also involves verifying the proper implementation of the risk management processes.

cRM enjoys a full overview of all risks listed and systematically classified in the risk catalogue, which is continually added to and expanded. cRM delivers the aggregated information to the Senior Management and the relevant risk owner (see risk communication). It is the central point of contact both for the Senior Management and for all risk owners of the Adler Group. In addition to collecting and processing the risk-related information, the independent central risk management is authorised to issue instructions with a view to ensuring an efficient and effective risk management process as well as to implementing and coordinating steering measures that have been ordered by the Senior Management.

4.3 The role and responsibilities of the risk owners

The risk owners are responsible function holders or units that have the competence and responsibility to manage a specific risk.

They are responsible for continually identifying, analysing, reporting on, managing, documenting and monitoring the risks that are assigned to them. Furthermore, the risk owners are responsible for derived risk measures (establishment, implementation and regular controls of stipulated actions) within their defined risk area. This primarily involves the development and monitoring of assigned risks. The Compliance & Risk Management division, the risk managers and service providers engaged to provide support function as the central contacts of the risk owners.

They are responsible here for the implementation of the risk management as an integral component of the operational processes. Their tasks include in particular:

- Defining detailed areas of investigation in which risks might be triggered by events that might potentially occur;
- Carrying out the risk identification (residual risk in due consideration of the measures effective in managing it) and analysing the identified risks while taking risk relationships into account;
- Monitoring how risks that have been identified develop (monitoring) and whether new risks are emerging in the course of risk dependencies-based cause and effect (scanning);
- Developing and implementing concrete measures and revising existing measures for managing risk in consultation with the relevant process owner;
- Communicating relevant risks and their management in accordance with the defined internal reporting.

4.4 The role and responsibilities of the monitoring function (Internal Audit)

The risk management system requires regular and process-independent monitoring (process control), which has to be conducted simultaneously alongside the process. It is used to assess the effectiveness and the efficiency of the risk management process per se in order to identify ideas for potential improvements to the process and to implement necessary adjustments. This monitoring is performed by Internal Audit.

An institutionalised internal audit unit has been set up in the group. A multi-year internal audit plan is drawn up for this, which is used to specify the audit areas to be covered by Internal Audit. Under the direction of the Management and with the support of the Risk Management team, an independent, external service provider conducts audits that are not related to specific events in accordance with the three-year audit plan. Internal Audit is directly involved in event-driven investigations. It reports to the Senior Management and the Board of Directors. The process-independent monitoring of the operating processes is guaranteed in particular by the closed control loop and the iteration of the individual phases of the operational risk management process, identification, analysis, management and monitoring.

5. The operational risk management process

5.1 Risk identification and analysis

Risk identification involves the continual and complete recording of all (material) risks of the company's activities, including their interrelationships. Both current and forecast data are used here to perform the **early warning function** of the risk management. Risk identification serves as the basis of information for the subsequent process phases.

All material risky transactions, sources of danger, causes of damage and potential disruptions affecting the company have to be recorded as completely and constantly as possible (see risk catalogue) and transferred to the "risk map". The risks that have been identified are catalogued systematically by category, area, responsibility, impact and correlation. The risks are currently assessed quarterly and supplemented when necessary by the identification of new risks by the risk owners or the contracting and integration of new risks resulting from business combinations or additional property purchases. Furthermore, the risks have to be reviewed and updated every year as a rule as part of a group-wide inventory, unless this is necessary during the year. Furthermore, the risk owners are also requested to specify new material risks and, where necessary, to update existing risks on an ad hoc basis and in the course of the surveys that are conducted quarterly and to provide information on risks that no longer exist.

5.1.1 Risk profile and system

The risk management system is subject to a consistent risk system for all risks. The defining system can be found in the risk pages of the risk catalogue and represent the guidelines for analysing the profile of the identified risks. The identified risks are thus classified in the course of the risk identification and risk analysis so that the risk assessment can be prepared. This serves to provide a clear overview on the one hand, while indications of the relevance of the risk in question as well as options for managing the risk can already be found here as a result.

The risks are classified systematically as follows:

- Risk category
- Risk area
- Risk ownership
- Risk impact
- Risk correlation

5.1.1.1 Risk categories

The risk management system draws a distinction between the three levels *risk categories*, *sub-categories* and *individual risks*. A risk category within the meaning of this policy is a term for risk under which several risk sub-categories and individual risks are summarised (see risk catalogue). The risk categories each represent the highest risk aggregation level here.

The risk categories are:

- Macroeconomic and industry-specific conditions
- Strategic risks
- Financial risks
- Operating risks arising from property management
- Operating risks arising from project development
- Company-specific risks

All individual risks, sub-categories and categories are recorded and documented in the risk catalogue.

5.1.1.2 Risk area

The risk area reflects the field of action of the risks. A distinction is drawn between systematic risks at the group level, which affect all portfolios and companies alike, and non-systematic risks, which have an impact only on individual companies – or sub-portfolios, projects or regions. In each case, the risk bearer is the portfolio or the project respectively. The risk area is taken into consideration in particular in the assessment.

5.1.1.3 Risk level

All risks of the Adler Group are categorized in terms of their allocation to the "top-down" and "bottom-up" impact directions. In the case of "top-down", the risks are also assessed at subgroup level by the risk officers of the Adler Group holding company; in the case of "bottom-up", the overall assessment for the Adler Group is carried out by aggregating the risks at company, (sub)portfolio, project and regional level.

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5.1.1.4 Risk ownership

The risk ownership regarding the risk in question falls to the responsible persons (risk owners) in accordance with the risk organisation.

5.1.1.5 Risk impact

The analysis of the risk impact does not include any estimate of the loss or probability of occurrence, but explores the fundamental impacts of the risk. The impact of a risk can have several forms here. The risk impact is divided into the following fields:

- **Assets:** This is understood to mean that the occurrence of the risk will result in a reduction in the assets. In addition to the fair value of the properties and projects held as investments or held for sale, assets here include in particular intangible assets (e.g. goodwill) and the gross development value of the project developments. (Impact on the balance sheet)
- **Income and expenses:** This is understood to mean that the occurrence of the risk will result in higher expenses and/or lower income. It does not matter here whether this impact affects the liquidity or not. (Impact on the income statement)

Liquidity:

- Liquidity: This is understood to mean that the occurrence of the risk will have negative impacts on the liquidity situation. (Impact on the liquidity/cash flow)
Image:
- Image: This is understood to mean that the occurrence of the risk will have an impact on the external perception and the image of Adler Group. This relates both to the capital market and financing partners, suppliers and buyers and also local authority decision-makers and last but not least the general public.

5.1.1.6 Risk correlation

Various risks can exert an influence on each other, meaning that one risk can play a part in reinforcing or mitigating another risk. That has a material influence on the risk assessment and the risk management. For example, initially little single risks can intensify each other to such an extent that the overall risk or a sub-category may increase.

Furthermore, new and improved options for risk management are produced from the awareness of the interrelationships, as risks can already be recognised and managed at an early stage (see early warning system) and, moreover, the causes and interaction of risks can also be clearly identified, rather than simply managing their symptoms.

The dependencies between the identified risk categories and individual risks are described and assigned in the risk catalogue.

The risk correlation of significant individual risks is already taken into account qualitatively as part of the plausibility and consistency checks of the individual risk assessments by zRM, and any resulting findings on the original assessments are discussed by the risk owners.

A technical and mathematical mapping of cause-and-effect relationships between risk categories and individual risks is implemented as part of the continuous improvement process and supported by an appropriate IT solution. In future, interdependencies between risks will be integrated into the scoring model using an addition and deduction procedure based on various parameters. The parameters used to determine the additions and deductions are essentially:

- Strength of the interdependency
- Dimensionality of the influencing risk
- Other factors that have an influence on the strength of the causal relationship

5.1.2 Early warning system

The Management of public limited companies are required to devise suitable measures, and especially to establish a monitoring system so that any developments threatening the continued existence of the

company can be identified as early as possible and preventive measures can be implemented in order to adequately counter potential risks.

An early warning system is set up as a further integral element of the risk identification within the risk management system. The aim of this system is to identify risks from weak signals in such good time that measures to avert the risks in advance are possible and effective. The effectiveness of the early warning system is heavily dependent here on the risk culture that is present and the risk policy that is practised in the group as well as on the individual employees' awareness of risk. The early warning system is not to be regarded as a separate institution but is rather to be understood in general terms as the procedural early identification of risks by each individual employee.

5.1.2.1 Level of the early warning system

Where risks can be identified or foreseen, individual employees and also business and central divisions have to put forward proposals for how to handle these risks (possibly also by means other than the attached forms or the risk catalogue) and to present the measures that have already been initiated and an assessment of whether the measures that have been proposed or initiated will result in the risks and their consequences being eliminated or mitigated.

Together with the risk owners, the risk manager reviews the areas under observation and early warning indicators (see also risk correlation) on a regular basis to check whether they are up to date and complete.

5.2 Risk assessment

The objective of the risk analysis within the risk management process consists in identifying and analysing all risks at the group, sub or portfolio level that have been identified in the preceding phase to see how significant they are. The risk analysis ensures here that the risk limits, based on the risk exposures stipulated in the Adler Group risk strategy, are not breached by the risks that have been identified.

A distinction has to be drawn between the risk analysis as part of the strategic portfolio optimisation on the one hand and the risk analysis as part of the control of the risk-bearing capacity on the other. While the risk analysis relating to the strategic portfolio optimisation plays a key role primarily in future investment decisions, the control of the risk-bearing capacity is predominantly of importance in terms of the operating risks such as project development and leasing. The current risk management system may offer limited steering options about future investment decisions, but the focus is the assessment of the risks in terms of the risk-bearing capacity and early identification. To measure risk, the Adler Group uses a scoring model (cost benefit analysis) in the form of a qualitative assessment system including some quantitative data. All risks are classified into six loss classes in accordance with where they belong.

5.2.1 Scoring model / quantification and qualification

The scoring model allows the individual risks of the property portfolio and of the Adler Group to be operationalised as well as assessed and weighted. This method pursues the goal of investigating a specific circumstance based on different criteria. The scoring procedure produces a points value. A points or count value is expressed by this “score” that can be classified in a scale based on the target values.

The score is produced from the average of the relevant values of the classes of the risk classification and the probability of occurrence. As of today, the allover target score is set as 3.0, but future adjustments are possible with a change in risk appetite and attitude.

Individual risks that exceed a certain amount in EUR or are above a weighted value must be listed in addition to the score evaluation of the individual risks. Different limit values apply to the effects on liquidity and total assets.

5.2.1.1 Risk classification

The assessment is carried out in the following loss classes (example)

Class	Value	Description
Low	1	No notable impacts
Medium	2	Slight impact on one or more business processes
Material	3	Noticeable impacts on one or more business processes
Serious	4	Clearly noticeable impacts on one or more business processes
Severe	5	Significant impacts on one or more business processes
Threatening the company / portfolio / project	6	Impacts on the whole company or full project / sub-project that endangers its continued existence

Amount limits for the individual classes are determined for each individual risk if possible.

5.2.1.2 Probability of occurrence

The assessment is carried out in the following classes (example)

Class	Value	Description
Unlikely	1	Risk has not previously occurred. Risk cannot be ruled out, however.
Remote	2	Risk can be expected to occur within five years or has occurred on repeated occasions in the past seven years.
Seldom	3	Risk can be expected to occur within three years or has occurred on repeated occasions in the past five years.
Conceivable	4	Risk can be expected to occur within two years or has occurred on repeated occasions in the past three years.
Likely	5	Risk can be expected to occur within one year or has occurred on repeated occasions in the past two years.
Probable	6	Risk can be expected to occur within the next three months or has occurred on repeated occasions in the past year.

Given as percentage levels

Klasse	Wert	Beschreibung
Unlikely	1	Up to 15% probability of occurrence
Remote	2	15.01 – 30% probability of occurrence
Seldom	3	30.01 – 45% probability of occurrence
Conceivable	4	45.01 – 60% probability of occurrence
Likely	5	60.01 – 75% probability of occurrence
Probable	6	More than 75 % probability of occurrence

5.2.1.3 Risk weighting and aggregation

The scoring model carries out an aggregation of the weighted risks to the next level.

Static vertical weighting has been used for the first level (risk categories) and can be presented as follows:

- | | |
|--|------|
| • Macroeconomic and industry-specific conditions | 15 % |
| • Strategic risks | 5 % |
| • Higher-level financial risks | 35 % |
| • Operating risks of the portfolio management | 10 % |
| • Operating risks of project development | 25 % |
| • Company-specific risks | 10 % |

Vertical weighting is used to determine the overall score for the Adler Group across the individual risk categories.

In order to prevent the risk of incorrect assessments due to incorrect weightings, the dynamic weighting method was used for the third and second risk levels. As part of dynamic weighting, weightings of individual risks from the current risk catalog in the technical risk management system that do not exist in the Adler Group at the reporting date are automatically distributed pro rata to the other individual risks in the respective risk (sub)category.

For Adler Real Estate AG and Consus Real Estate AG as legal entities, company-specific circumstances may result in different weightings at the various levels.

Within the risk (sub)categories, certain individual risks are recorded in a horizontal view, in some cases at the subgroup level of the Adler Group or project/property level or regional level, and weighted to produce a score for the respective individual risk ("bottom-up"). The horizontal weighting of individual risks is based on specific parameters. At the lowest risk level, risks are recorded at the level of the subgroup, individual portfolio or project. In the operating area, the individual project development risks are weighted horizontally on the basis of project-specific parameters, e.g. rental income of the portfolios or the gross development value (GDV) of the project developments.

Intercompany relationships or transactions between the subgroups of the Adler Group must be taken into account when calculating the scores for individual risks determined by weighting using the "bottom-up" approach, so that adjustments to these scores may be necessary at Adler Group level.

5.2.1.4 Definition of risk limits

Thresholds or risk classes have been used to determine the risks that are significant for the Adler Group. Thresholds are defined reference values that trigger the classification of a risk as **significant** if they are breached. Intervals are designated as risk classes and are demarcated by an upper and a lower threshold; a risk classification is assigned to each interval. Uniform value limits have been defined for all parameters of the property portfolios of the group that can be quantified and recorded. The risk management system consists of several thresholds; the individual levels are linked to different measures when they are reached, ranging from a simple disclosure requirement (reportable risk) to the initiation of an emergency measure.

A limit system (see risk matrix) has been set up for this purpose with the following risk limits: acceptable risk (lower than 4,0), ad-hoc reportable risk (higher than or equal to 4, lower than 5) and initiation of an emergency measure (equal to or higher than 5).

Expected loss	Accepted risk		Ad-hoc reportable risk		Initiation of emergency measure		Probability of occurrence
	3,5	4	4,5	5	5,5	6	
Threatening the company / portfolio / project	3,5	4	4,5	5	5,5	6	
Severe	3	3,5	4	4,5	5	5,5	
Serious	2,5	3	3,5	4	4,5	5	
Material	2	2,5	3	3,5	4	4,5	
Medium	1,5	2	2,5	3	3,5	4	
Low	1	1,5	2	2,5	3	3,5	
	Unlikely	Remote	Seldom	Conceivable	Likely	Probable	

The definition of risk limits forms one of the central tasks of the strategic management and therefore has to be regarded as part of the management duties. The individual risk limits to be set have been defined here on the basis of the individual risk appetite of the Adler Group. Quantified risk assessments are translated into a scoring model if possible.

Furthermore, quantifiable risks with known values and facts are reported explicitly and separately. This concerns risks valued at / at more than EUR 5 million as liquidity impact and more than EUR 10 million as asset impact.

So that an early warning function corresponds to the risk assessment, however, a limit for reportable risks has been set that is lower than the maximum acceptable risk of higher than 4. Breaching specific thresholds triggers different consequences. Thresholds can be defined here both for **management-related** and for **information** purposes.

5.2.1.5 Risk limit for information and management-related purposes

If risk limits are used for information purposes, they define the risks where the relevant higher level of the company has to be informed or the risks which have to be included in the internal company reporting. The limits have a double significance here: on the one hand, they ensure that the higher-level offices are informed at an early stage and in full of the impending breach of the risks that have been defined as material. In this respect, the limits perform an **early warning function**. The other thing that is achieved with this is that the higher levels and especially the management level of the company are informed only of the material risks and are not overloaded with (irrelevant) information. The information thresholds thus also function as a filter.

In addition to the information purposes, the risk limits are also used for organisational requirements concerning the responsibilities within the risk management system, as different competences and activities within the company are linked to the breach of certain risk limits (see risk management organisation), so that the next level up comes to deal with the situation only when a risk limit has been reached or breached. The management-related components ensure here that a higher organisational level in the further risk management process is involved as the risk increases (see risk matrix).

5.2.1.6 Percentage deviation for extended management-related purposes of the Senior Management

A percentage deviation of the risk score from the relevant target value is established as an additional control instrument for the Management. The target values can change on an ongoing basis and are dependent on the risk acceptance of the Senior Management. This allows the Senior Management to address necessary measures, especially in critical risk fields where the risk acceptance is low, to the risk owners at an early stage.

Schadenshöhe								
Unternehmensgefährdend	35%	40%	45%	50%	55%	60%		
Gravierend	30%	35%	40%	45%	50%	55%		
Einschneidend	25%	30%	35%	40%	45%	50%		
Wesentlich	20%	25%	30%	35%	40%	45%		
Mittel	15%	20%	25%	30%	35%	40%		
Gering	10%	15%	20%	25%	30%	35%		
	Unwahrscheinlich	Fernliegend	Selten	Denkbar	Möglich	Wahrscheinlich		Eintrittswahrscheinlichkeit

5.2.2 Ad hoc reporting requirement (“event-driven emergency reporting”)

As mentioned above, the Adler Group uses a qualitative assessment system, which, in addition to its functions that have already been explained, guarantees a swift process and enables the material risks to be focused on. Should an individual risk or a risk category reach a score equal to or higher than 5, the quantification process must be initiated immediately by central risk management together with the

relevant risk owner so that a proposal for an emergency measure can be produced. The quantification has to be reported to central risk management and the Senior Management within three working days.

5.3 Risk management

The goal of the risk management consists in applying the measures described below to manage in a targeted way all quantitative and qualitative risks both at portfolio, regional and also group level that have been identified in the previous course of the risk management process and that are considered to be material and thus in need of management. In order to manage the risks selected as relevant effectively, it is necessary that the methods and instruments used for this are suitable on the one hand for managing the risks in such a way as defined by the risk strategy that the risk specifications (especially the defined risk limits) are not breached (aspect relating to the risk-bearing capacity) and, on the other, for contributing to the optimisation of the risk-reward profile of the portfolio (aspect relating to portfolio optimisation using targets).

Standardised operating activities apply here for the risk owners when the following points values (score), derived from the risk matrix explained above, are reached:

Score	Standardised operating activities
1.0 – 2,99	no measures necessary, continued monitoring by the operational risk management process.
3,0 – 3,99	preparation of a proposal to the cRM for the measure based on cause and effect as well as intensive monitoring measures
4,0 – 4,99	immediate report to the Senior Management, strict monitoring measures necessary and immediate preparation of a proposal for measures based on cause and effect directly to the Senior Management and the cRM.
5,0 – 6,0	Additionally, initiation of emergency measures

Alternative operating activities may result for the Senior Management based on the percentage deviation of the risk score from the relevant target value:

Deviation from the target score	Standardised operating activities
> 0 – < 30%	no measures necessary, continued monitoring by the operational risk management process.
30% – < 45%	instruction to the risk owner to prepare a proposal on the measure based on cause and effect as well as initiation of intensive monitoring measures.
45% and above	strict monitoring measures necessary and immediate preparation of a proposal for measures based on cause and effect directly to the Senior Management and to the Supervisory Board. instruction to the risk owner to implement necessary measures.

5.3.1 Risk management based on cause and effect

The selection of the methods and instruments in particular, but also the design of the risk management is based on the focus of the risk policy of the Adler Group.

A distinction has to be drawn here in principle between a risk policy based on causes and a risk policy based on effects. Risk management **based on causes** focuses here on remedying as completely as possible causes of risks that have been identified, i.e. on influencing the probabilities of the risk occurring and, in the best-case scenario, on eliminating the possibility of the risk occurring. To be able to derive management based on causes, the correlation and cause of the individual risk is examined in the risk analysis (see risk catalogue).

In contrast, risk management **based on effects** aims only to mitigate the negative impacts if an identified risk actually occurs. To be able to derive management based on effects, the effect (on values, liquidity, etc.) of the individual risk is investigated in the risk analysis (see risk catalogue).

The Adler Group pursues both types of risk strategies, but at the moment places the emphasis on the risk management based on effects.

Four strategies for risk management are used here:

- **risk prevention;**
- **risk mitigation;**
- **risk rollover;** and
- **risk acceptance.**

5.3.2 Strategies and instruments of the risk management

5.3.2.1 Risk prevention

The strongest expression of a risk policy based on causes can be seen in the strategy of risk prevention. This aims at avoiding possible risks and completely preventing these risks from occurring. These instruments used in this risk strategy therefore basically involve eliminating the sources of risks and withdrawing from business fields identified as high risk.

5.3.2.2 Risk reduction

The strategy of risk mitigation can be an expression both of a risk management oriented on causes and a risk management focused on effects. It is aimed either at reducing the probability of occurrence of risks (focus on causes) or at reducing the financial and non-financial consequences arising when the risks occur (focus on effects).

5.3.2.3 Risk rollover

Risk rollover pursues the objective of limiting a possible loss by passing on (i.e. rolling over) risks to third parties. In the real estate industry, the element of risk rollover represents an important means of risk management that is used practically by all institutional investors. Example: insurance, forward sales

5.3.2.4 Risk acceptance

Using the strategy of risk retention or risk acceptance, risks are accepted by the Adler Group consciously and without exerting an influence on possible missed targets and their consequences. It must be ensured that the Adler Group takes its risk-bearing capacity into account when implementing this management based on effects. Risk retention should therefore be selected primarily for risks where the extent of the damage they cause can be accurately quantified and where the potential expense of influencing the risk is higher than the possible reduction in the risk of loss related to it.

Self-retention can be implemented actively or passively. The active form is characterised by the fact that adequate coverage potential, e.g. in the form of provisions, can be expected to cover the possible losses. The passive variant of risk retention is represented by the omission of any precaution where recourse can be made to the general company reserves in the event of loss.

5.3.3 Measures for managing risk

The risk management measures are defined and designed by the risk owner. The aim of the respective measure is to reduce the damage and / or the possible occurrence of risk. Lastly, the effectiveness of the measures is checked in order to be able to guarantee adequate risk management. The cycle of the respective measures is based on the expected damage value and the forecast probability of occurrence.

5.4 Risk communication

Together with its risk reporting, the risk communication constitutes an important form of documentation. The risk reports present the risk categories at group, regional and portfolio level and are used primarily for information purposes. The most important objective of the risk reporting is to ensure that the decision-makers are provided with information on risk-related developments that is as complete, correct and early as possible, so that they are still able to promptly initiate effect, risk mitigation measures. The risk communication draws a distinction between standard reports, reports on demand, ad hoc reports and external reports.

The risk reports are based on the assessment results from the risk map. The risk map is thus already an essential component of the reporting system. The report refers to the analysis results, developments in the risks over the course of time as well as the deviations from predefined target values.

5.4.1 Standard report

Standard reports are standardised reports that are drawn up at set times or with a specific frequency. The frequency depends here on the groups that receive the reports (see below). The standard report presents the risk situation of the Adler Group and of the individual property portfolios in concentrated form in order to provide the risk owners, the Senior Management and Board of Directors with all risk-related information on a regular basis.

5.4.2 Report on demand

Reports on demand are risk reports that are specifically requested outside of the usual reporting schedule. These reports generally deal only with the specific aspects to be investigated and are usually produced only on a one-off basis (e.g. a report on the risk of rent loss requested by the Senior Management and/or Board of Directors).

5.4.3 Ad hoc report

Ad hoc reports are disclosures that are directly connected in time with exceptional events. They deal in particular with breaches of threshold or a target value (see risk matrix). They thus fulfil the requirement to inform the competent offices of these events immediately.

5.4.4 External reporting

The external reporting serves to inform shareholders, investors and other interested parties in a suitable way about risks endangering the existence of the company as well as potential risks for the planned business developments, but at the same time also about the business opportunities and earnings potential on the opposite side of these risks. The group management report including the risk report pursuant to Section 289 of the Handelsgesetzbuch (HGB – German Commercial Code) forms an essential element of the external reporting here.

5.4.5 Reporting to central risk management

The risk owners have to report to central risk management every six months as a minimum or in accordance with the scheduling requirements based on the reporting cycle agreed specifically for the particular risk (e.g. quarterly). To this end, the individual risk maps are sent to the relevant risk owners to assess the risks as part of the operational RMP.

The risk owners ensure that the offices responsible for implementing risk management measures (process/function owners) always have the same level of information as central risk management (avoiding asymmetrical information).

5.4.6 Reporting to the Senior Management

The Senior Management is kept informed on an ongoing basis by central risk management of the overall risk exposure of the Adler Group as well as of the achievement of the objectives of the risk management.

The areas of the individual risk owners are audited, supplemented and summarised in a general report by central risk management; the report is then forwarded to the Senior Management. Furthermore, written ad hoc reports to the Management have to be drawn up when values exceed or fall below reference values.

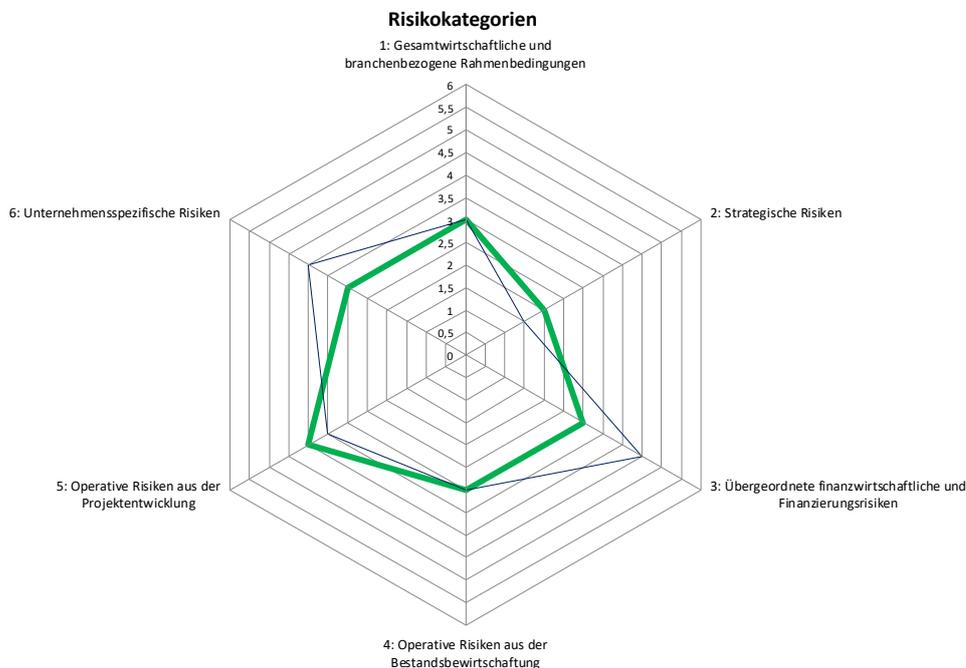
The reports are drawn up in principle based on the Senior Management’s need for information. The frequency of the reporting is based on the relevance of the risk. The contents of the reports are the same as the reports of the risk owners. The information can furthermore be retrieved by the risk owners at any time.

In order to make it easier to evaluate the multidimensional risk assessment, the results are presented using a table and a graphic risk network. The level of the individual risk factors of the group’s risk categories and the key project developments can be clearly read from the risk network presented above (score 1 = very low risk up to 6 = very high risk).

Strengths and weaknesses of the area under consideration are especially clearly shown by the network-based presentation, with the result that the risk owners and cRM can visualise at which points intervention is necessary as an adjustment at the property and where particular risks represent a threat.

It has to be noted that in any form of graphic presentation a compromise has to be found between providing an overview that is as clear as possible and information with a sufficient degree of detail.

Risk net with target and actual positions (example)



5.4.3 Reporting to the Board of Directors

The Senior Management reports to the Board of Directors on the current risk situation on a quarterly basis as a minimum.

Should events endangering the existence of the company occur, these are communicated immediately to the Board of Directors by the Senior Management (ad hoc reporting).

6. Process control and documentation

In addition to the risk control already discussed, i.e. the control of whether the results achieved (actual risk exposures) match the defined target risk exposures, the risk management process itself also has to be checked. The risk process control presented below is thus not a further phase in the workflow of the risk management process, but rather an integral element of the risk management process, which has to be performed in parallel with the actual phases of the process.

The risk process control aims to assess the effectiveness and efficiency of the risk management process and to identify as early as possible any deficiencies and possible improvements in the risk management process per se, for example in the workflows and the instruments that are used. This ensures that the risk management process is adapted and optimised on an ongoing basis and that the guidelines and in particular the limit system can be promptly adjusted to and realigned with changes in general internal and external conditions when necessary.

A regular control of the risk management process, which has to be conducted at least once a year, aims to ensure that the process is sustainably designed as optimally as possible in view of the relevant general conditions. At the same time, the risk situation of the company as a whole is monitored over the long term as a result. Furthermore, the operating efficiency of the RMS should also be included in the process control.

The subject of the risk process control is thus both the control of the overall process and the control of the individual phases of the risk management processes in terms of their effectiveness and efficiency.

6.1 Risk process control with regard to the overall process

The organisational structure on the one hand and the contents of the overall process on the other have to be reviewed as part of the control of the overall process.

In the review of the organisational structure, an analysis has to be carried out of whether the structure of the risk management process, i.e. in particular the delineation between the individual phases of the risk management process and the distribution of responsibilities between the various areas included, is appropriate or can be optimised.

Furthermore, the workflow of the overall process has to be monitored to check whether this is designed as effectively as possible so that the co-operation between the individual risk owners in particular functions smoothly. It must be ensured in particular here that the various phases of the process build effectively upon and complement each other and that redundancies are avoided.

In this context, the effectiveness and the quality of the co-operation with external service providers, such as statutory auditors, also have to be monitored.

It must be reviewed as part of the control of the contents of the overall process whether the priorities of the individual phases within the overall process are set correctly.

It must furthermore be reviewed whether the risk management process continues to fulfil the legal requirements.

6.2 Risk process control with regard to the individual process phases

The control of the individual phases of the risk management process can also be divided into a control of the organisation on the one hand and a control of the contents of the individual phases on the other.

As in the control of the overall process, the monitoring of the organisational structure of the individual phases has to examine whether the design of the phase is structured as effectively as possible on the one hand and, on the other, whether the co-operation between the various internal and external participants is optimally designed. Ultimately, the same standards that are applied at the level of the overall process are also applied here to the lower level.

With regard to the contents, the risk process control is used to review four different aspects within the individual phases. These aspects involve:

- controlling whether the assumptions taken as the basis in the relevant phase are appropriate and up to date (e.g. in terms of the targets set for the risk exposures that are pursued, the defined risk thresholds and the dependencies);
- monitoring the quality of the data established internally and the data obtained from external third parties;
- reviewing the methods and instruments used in the relevant phase to ensure that they are suitable, complete and complied with by the areas in question;
- analysing the results established in the relevant phase to check that they are accurate, of good quality, informative and reusable within the framework of the overall process. The operating efficiency of the risk management process also has to be checked at the level of the individual phases.

6.3 Responsibilities and instruments in the risk process control

Because of the complexity of a comprehensive risk process control, which should encompass all aspects of the process, the responsibility for implementing the risk process control is assigned to various areas of the company. In addition to the relevant specialist departments and the strategic risk management, responsibility for the control essentially also lies with the following process-independent instances: central risk management, Internal Audit, the statutory auditor and also the Board of Directors of the company.

6.3.1 Central risk management

Central risk management is responsible for monitoring the risk management process on a regular and ongoing basis.

The task here not only consists of a control, but primarily in informing the competent risk owners in the Adler Group, when necessary, of deficiencies identified in the course of the monitoring, so that they can intervene and institute corrective measures.

6.3.2 Risk committee

The risk committee provides support and advice to the Risk Management team, especially in the fields of the risk environment, risk principles, risk culture, risk changes as well as the group-wide attitude to risk. The composition of the risk committee is defined separately and as and when necessary. External experts can be invited to explain situations. The cRM convenes and chairs the risk committee. The risk committee should meet at least twice a year.

6.3.3 Internal Audit

An institutionalised internal audit unit works for the Senior Management on a regular and ad hoc basis and in line with a three-year audit plan. The function is currently performed by an external firm of auditors. The focal points of the audits are defined in consultation with the Supervisory Board. The results are provided to the Senior Management and the Supervisory Board. The process-independent monitoring of the operating processes is guaranteed in particular by the closed control loop and the iteration of the individual phases of the operational risk management process, risk identification, risk analysis, risk management and risk monitoring. Internal Audit also makes use here of existing controls and process documentation.

The task of the process-independent monitoring is undertaken within the Adler Group by Internal Audit. If a separation of functions between Internal Audit and Compliance and Risk Management cannot be ensured, an independent external entity is engaged to perform the audit.

6.3.4 The auditor

The auditor has to assess in the course of the audit of the financial statements at listed public companies if the Senior Management has taken the measures legally required in appropriate way. In contrast to the previous duty, the auditor now has to obtain an overview of the monitoring system that has been set up, but not of its functional capability. This is the responsibility of the Supervisory Board.

A general control function is assigned to the Board of Directors, i.e. it has to oversee the senior management/Management Board and also to monitor in this respect whether the management has fulfilled its duties to set up an effective risk management system. The Supervisory body can also outsource this review separately to the auditor, who then reports to the Supervisory body.

7. Annexes

7.1 Risk catalogue (German version)

7.2 Overview of “Risk catalogue and owners”

