



2.1.4 Risk and opportunity management

In 2015 Lar España implemented an integrated **risk management system to ensure that risks are identified, evaluated, managed, and controlled correctly and systematically, thereby helping to fulfil the Company's strategies and objectives.**

The integrated risk management system works on a comprehensive and ongoing basis, and risk management is further consolidated at corporate level by business unit, subsidiary, and support area.

Risk Control and Management policy

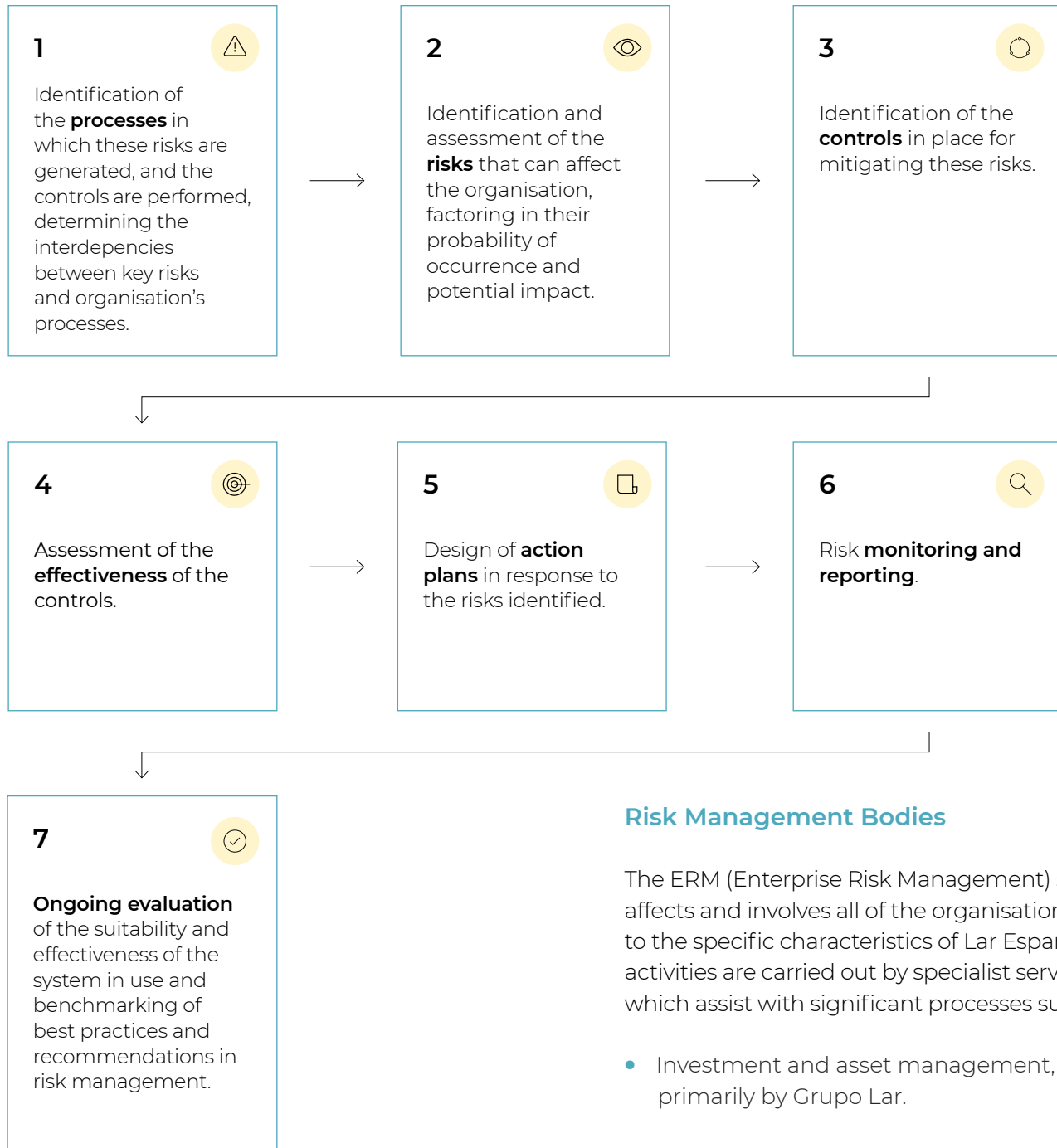
Lar España approved its **Risk Control and Management Policy** in 2015 setting down the components and activities that make up the risk management process and defining the organisational approach and the responsibility assignment model needed in an integrated risk management system, as well as the **methodology for risk identification, evaluation, prioritisation and management** in a efficient way, taking into consideration the circumstances of the Company and the regulatory and economic environment where it operates.

Enterprise Risk Management (ERM) - System

Lar España's ERM system has been implemented at the corporate level and designed to **mitigate all the risks, including tax-related risks, to which the Company is exposed on account of its business activities.**

The ERM system's mission is to **ensure a reasonable level of assurance regarding the company's ability to achieve its strategic and operating objectives.** The system is aligned with the key guidelines established in the "*Enterprise Risk Management —Integrating with Strategy and Performance (ERM 2017)*" published by COSO (Committee of Sponsoring Organizations of the Treadway Commission).

Lar España views risk management as an ongoing, dynamic process that encompasses the following steps:



Management, under the supervision of the Internal Audit function, establishes risk management priorities and determines the measures to be implemented, ensuring that the processes are performed and working as intended.

Risk Management Bodies

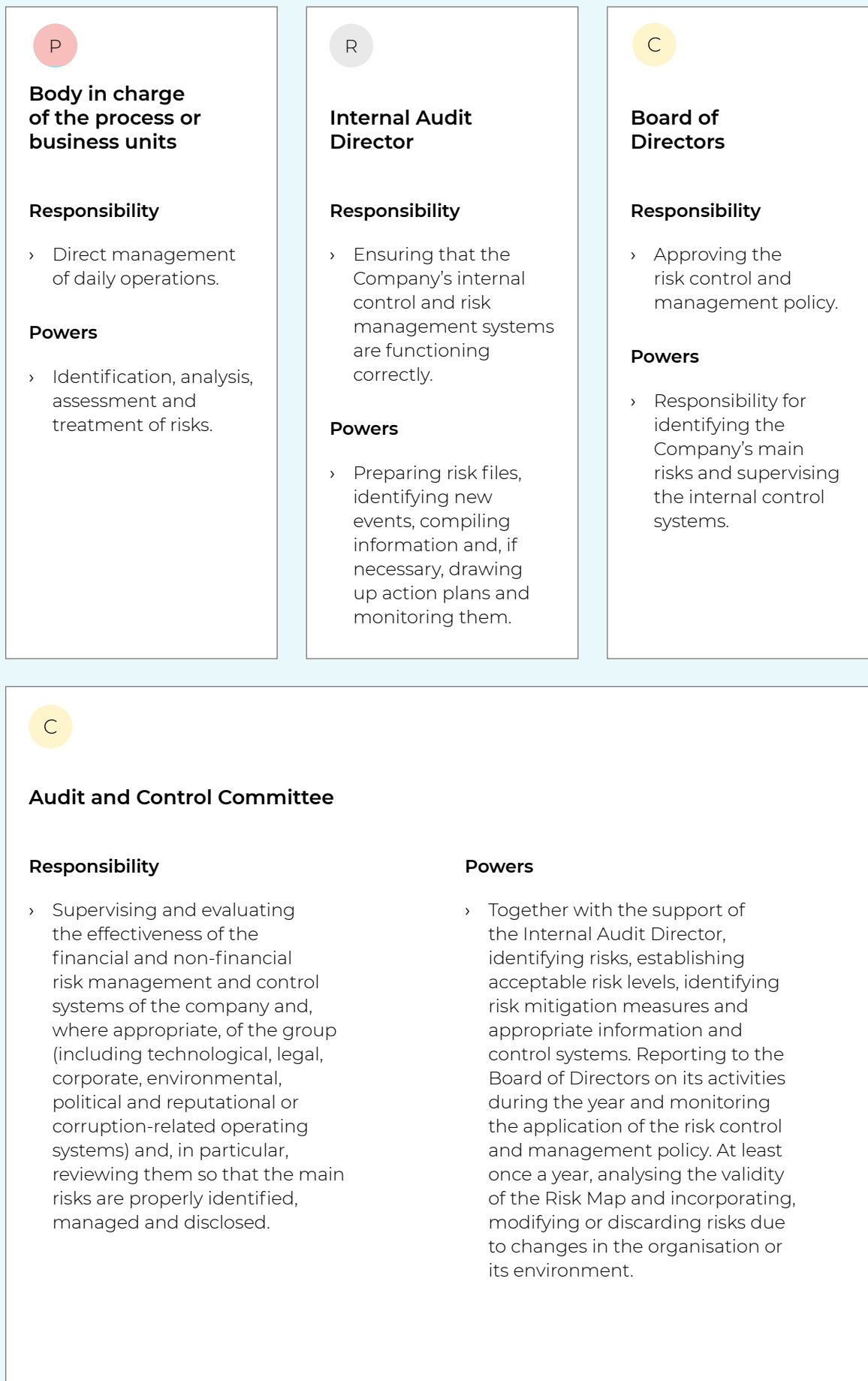
The ERM (Enterprise Risk Management) system affects and involves all of the organisation's staff. Due to the specific characteristics of Lar España, certain activities are carried out by specialist service providers which assist with significant processes such as:

- Investment and asset management, performed primarily by Grupo Lar.
- Preparation of financial, accounting and tax information.
- Half-yearly asset appraisals..

Lar España follows detailed procedures for **supervising the third parties responsible for these outsourced services** to ensure that these suppliers perform the activities contemplated in the ERM system.

The main participants in the ERM model are:

→ Risk management



Risk Map

Lar España has an **updated Risk Map** illustrating the risks that could potentially affect the Company. The Company has prioritised the following risks, having carried out the relevant annual update of the Risk Map. It also carried out the appropriate management and monitoring activities for these risks in 2021 and will continue to carry out this process over the coming years:

Strategic risks:

- Outbreaks, epidemics and pandemics.
- Political and macroeconomic situation, as well as changes in consumption and social behaviour models.
- Regulatory changes/legal uncertainty.
- Inadequate adaptation to climate change and environmental.

Operational risks:

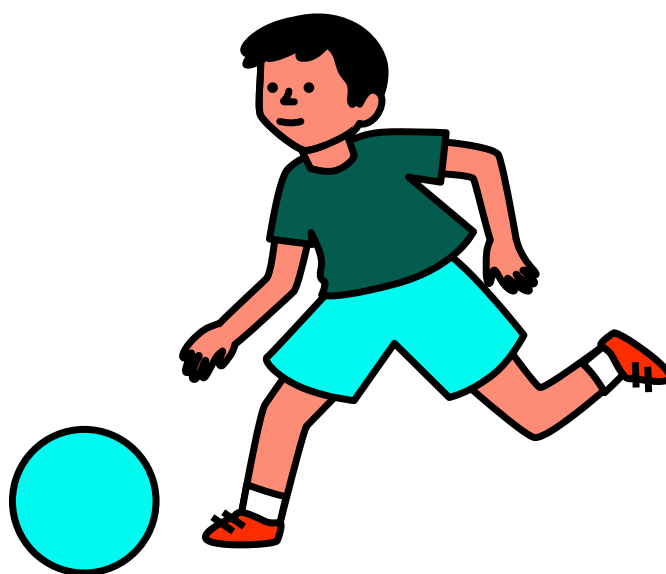
- Value of buildings.
- Health safety of employees, collaborators, clients and visitors at shopping centres and precincts.
- Cybersecurity and information security.
- Renegotiation of contracts as a result of the pandemic.
- Client solvency and credit risk.

Financial risks:

- Market risk and worsening of macroeconomic indicators.

Regulatory risks:

- Requirements of the SOCIMI regime.



These risks have been defined by Lar España in accordance with risk tolerance criteria and depending on how critical the risks are for the business, i.e. impact by probability. The risk monitoring process consists of continuously monitoring the internal and external variables that can help to anticipate or foresee these and other relevant risks for Lar España. The level and frequency of monitoring of the risks identified vary according to how critical they are and the level of effectiveness of the controls implemented.

In 2021, particular attention was paid to **strategic risks**, both those derived from the health crisis caused by the COVID-19 pandemic and the consequences this is having economically, socially and on consumer behaviour.

Similarly, the risks to the Company's assets from **adaptation to climate change and environmental sustainability**, as well as **cybersecurity** and information security risks, have also been included in the 2021 risk map update.

In the area of risk management associated with ESG matters, the Company **carried out an environmental and social due diligence (ESDD)** in respect of the various stages of the business model. The number of material risks and their potential consequences were also identified, including those caused by climate change.

Response and mitigation plan

The specific characteristics of the market and sector in which Lar España operates make it necessary to focus on correctly **monitoring and updating the various risks** to which the organisation is exposed, including tax risks.

Thus, Lar España has defined **different scenarios for managing risk**:

- Comprehensive analysis of the risks deemed most critical to achieving an adequate degree of control.
- Assessment and surveillance of risks deemed as of medium importance to maintaining adequate control as a function of the real level of risk.
- Rationalisation and optimisation of the controls applicable to less critical risks.

Based on these levels, Lar España has established **four strategies in relation to the level of risk** assumed in each case:

- **Reduction:** This involves undertaking response activities designed to reduce the probability of occurrence or impact of the risk, or both simultaneously. This may entail the introduction of new controls or the improvement of existing ones.
- **Sharing:** The probability of occurrence or impact of the risk can be adjusted by transferring or sharing a portion of that risk, for example, by arranging insurance.
- **Avoidance:** This involves withdrawing from activities that give rise to risk. In this instance, the response to risk is to do away with a business unit or activity, or to decide not to pursue new activities associated with those risks.
- **Acceptance:** In this case, no action is taken to modify the probability of occurrence or impact of the risk. Risk is assumed at its inherent level as this is deemed appropriate for the activity and the objectives established.

Lar España gives different priorities to the **action plans**, depending on how critical the risks to be mitigated are, the cost/benefit analysis of the proposed courses of action and the resources available. To this end, the **main risks** of the organisation are identified and individual risk files are used to document the risks and **improve risk monitoring**. These files specify the controls in place and the key risk indicators (KRIs) that enable the associated risks to be predicted and/or monitored. In the coming years, the plan is for this **ongoing risk management and monitoring process** to continue.

The **Audit and Control Committee** of Lar España analyses the effectiveness of the organisation's risk map annually, **adding, modifying or disregarding risks**, as appropriate, as a result of changes in strategic objectives, organisational structure, emerging risks, prevailing legislation, etc.

Materialised risks

The result of Lar España's risk assessment carried out in 2021 continues to be **highly conditioned by the context of the health, social and macroeconomic crisis** caused by the COVID-19 pandemic in Spain and in the rest of the world and, therefore, these risks continue to be some of the main ones that materialised in 2021.

The **individualised renegotiation** of contracts with each of the lessees, adapting to the new situation in 2021, the necessary **implementation of protocols and health and hygiene measures** to protect the health of employees, clients and visitors to the company's properties, and the **impact on the value of real estate assets** as a result of the uncertainty generated in the market, are some examples of the effects on the Company of the pandemic.