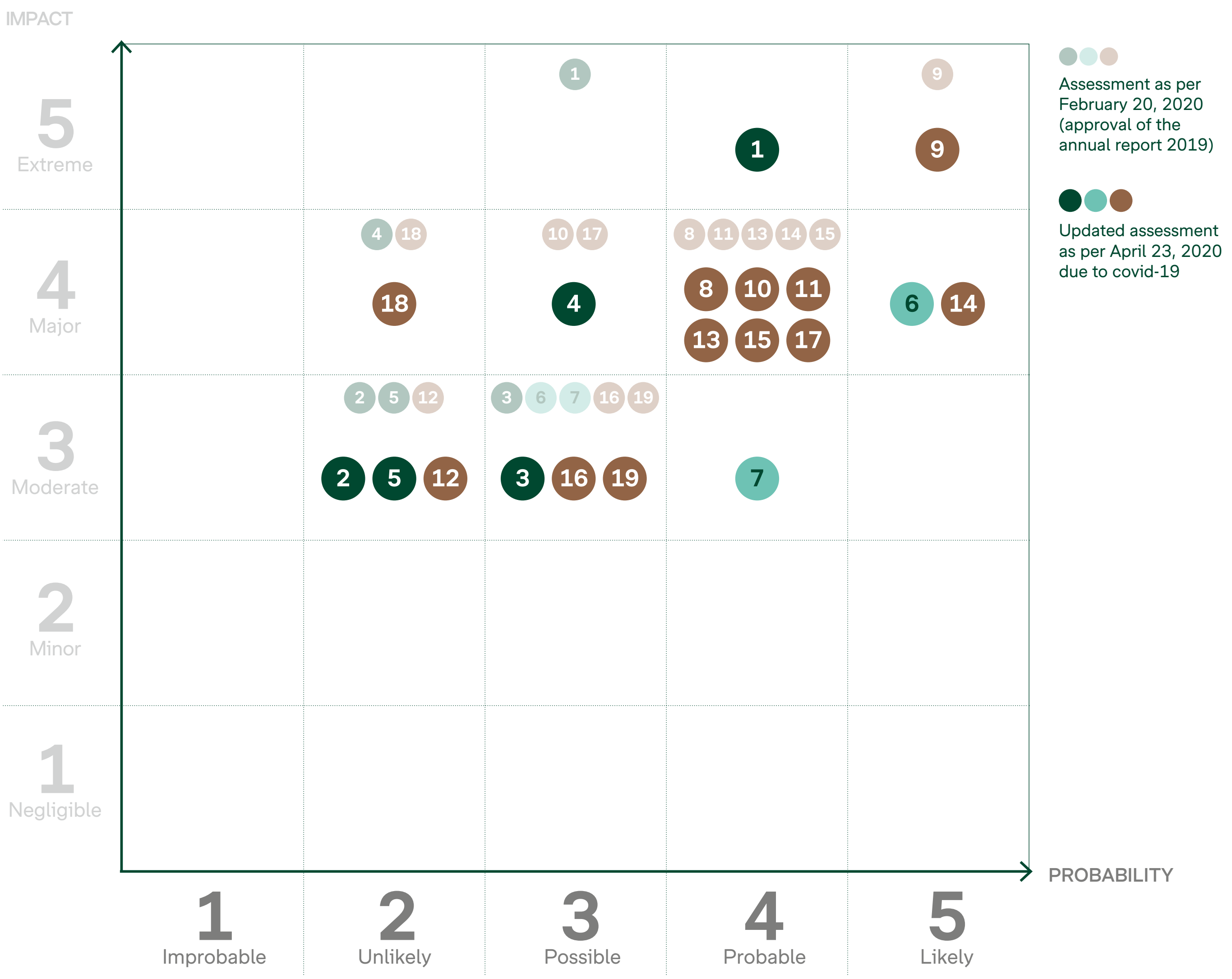
Risks and risk management

Bonava is exposed to risks with varying degrees of impact on the company. These risks may be attributable to events or decisions beyond Bonava's control but may also be the result of decisions by the company. Through structured and proactive risk management, Bonava's ambition is to ensure that the risks are either minimised as much as possible or remain potential risks. The Audit Committee is tasked with monitoring and evaluating Bonava's risk management, including the internal control environment.

In the risk assessment process, a number of risks were identified and assessed based on the probability that they could occur and the impact they would have on the operations. Normally, the risk assessment is performed annually and presented in the company's annual report. As a consequence of the global spread of COVID-19, the risks presented in the annual report 2019 have been re-assessed. Adjustments to the assessment are attributable to events beyond Bonava's control but may nevertheless have an impact on Bonava's operations and financial position. Through structured and proactive risk management, Bonava's ambition is to ensure that the increased risks resulting from the spread of COVID-19 are minimised as much as possible.

In the following illustration and table, an analysis of these risks is presented. The evaluation of impact and probability displays the company's assessment of inherent risks without considering mitigating factors. Changes to the assessment have been made according to the information that is available as of April 23, 2020. The rapid turn of events may lead to a revised view on Bonava's risk exposure over time.

Bonava has established a Risk Committee, comprising the CFO, General Counsel, Group Head of Financial Control, Group Head of Sustainability and Group Head of Risk and Compliance. The Risk Committee is responsible for centrally organising, coordinating, and driving Bonava's risk management work. The Risk Committee regularly reports to the Audit Committee and the Executive Management



FINANCIAL RISKS

Risk area	Description	Probability	Impact	Mitigating factors	Response to spread of coronavirus (COVID-19)
1 Liquidity	The risk of the company being unable to meet its payment obligations on the due date without incurring significantly increased funding costs.	4	5	Bonava has stipulated a specific level relating to its payment capacity. The company also has a structured process for continuously monitoring and forecasting Group liquidity in order to ensure optimal financing and liquidity at any given time.	A number of different scenarios of the impact of COVID-19 are analysed, frequent meetings and status updates are held with the Business Units regarding forecasts and liquidity plans. Bonava has a close dialogue with its main banks to secure the financing of the Group.
2 Guarantees	Guarantors could decide against providing additional guarantees to Bonava if the company exceeds its guarantee facilities.	2	3	Bonava closely monitors its volume of guarantees utilised and obtains sureties from a centrally selected group of guarantors. The company also ensures that guarantees outstanding after the expiration of the guarantee period are reclaimed.	No immediate impact from COVID-19, however, a continuous assessment is being done in order to be able to act if circumstances change.
3 Errors in reporting	Financial and non-financial reporting (e.g. environmental and social sustainability, HR, purchasing) for housing operations is complex, involving complicated calculations and assessments. Erroneous calculations, and insufficient monitoring and analysis of reported figures, can lead to significant risks to Bonava's reputation and financial risks.	3	3	For financial reporting, Bonava applies the completed contract method, which implies that revenue and costs are known at the time of profit recognition. The company also has a structured process for budgeting outstanding costs at the time of profit recognition. A structured process is also used for non-financial items.	Key employee absences due to of both illness and official restrictions have been compensated by working remotely and re-allocation of tasks.
4 Valuation	The valuation of Bonava's properties held for future development, as well as ongoing and completed housing projects, depends on estimates of future sale value and estimates of future costs for development and production. Inaccurate estimates can lead to incorrect reporting of the value of these assets.	3	4	Bonava prepares a thorough forecast in which the future sale value and cost of housing projects are regularly evaluated and assessed. In addition, impairment tests are conducted annually for properties held for future development. All impairment losses are reflected in the income statement.	Impairment tests are continuously being updated, as of March 31, there have been no impairment losses as a consequence of the changed market conditions.
5 Fluctuations in interest rates and currencies	Bonava is exposed to interest rate and exchange rate risks insofar as interest rate and exchange rate fluctuations could negatively impact profit and cash flow or the fair value of financial assets and liabilities.	2	3	Bonava's Finance Policy stipulates a specific level for the average fixed-rate term in the debt portfolio and that the interest roll-over structure should be diversified over time. Bonava's exchange rate risk is limited because the business units' payments are mainly denominated in local currency. Exchange rate risk in the form of currency fluctuations is managed centrally by the Treasury function and is largely hedged in accordance with the Finance Policy.	Despite fluctuations in interest rates and currencies, the exchange rate risk remains limited, COVID-19 has not imposed a challenge to the established control systems at Bonava.

MACROECONOMIC RISKS

Risk area	Description	Probability	Impact	Mitigating factors	Response to spread of coronavirus (COVID-19)
6 Demography/economic growth	A downturn in the economy could affect consumers' work situations and purchasing power. Demographic changes could lead to a reduction in potential customers. Both these trends could negatively impact sales and profit.	5	4	Bonava constantly analyses the market situation in each area of operations. A diversified portfolio in eight countries provides the possibility of flexibility in taking advantage of changing market conditions.	A number of different scenarios of the impact of COVID-19 are analysed in order to be able to adapt to the impact on purchasing power, customer demand, and workforce.
7 Rules and regulations	Changes to building permit regulations, construction guidelines and sustainability requirements can result in cost increases or delays in construction projects. Legislative changes relating to tax and borrowing can influence housing demand and property prices.	4	3	Bonava is in continual dialogue with stakeholders who have an influence over the political agenda. This is complemented by an external analysis focused on identifying causes, trends and ongoing changes to laws, ordinances and other regulations. Bonava continually adjusts its processes and decisions, and its strategy as needed, when significant changes.	Bonava has taken measures to address the fast changing and continuously updated rules and regulations on Bonava's market including limitations on number of people on construction sites, limitations on working from the office.

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Probability that the risk is realised, 1–5

Impact if the risk is realised, 1–5

OPERATIONAL RISKS					
Risk area	Description			Mitigating factors	Response to spread of coronavirus (COVID-19)
8 Portfolio Management	Inopportune portfolio management decisions could lead to an unfavourable use of capital and decreased profitability.	4	4	Investments in and divestments of land are regulated through a multi-level control environment that includes a properly developed due diligence process and requires Board approval in conjunction with larger contracts.	The company is continuously re-assessing current acquisition plans to ensure continued development of volume and liquidity.
9 Project development	Price changes in purchasing, increased project engineering costs and delays caused by a lack of or delayed permits from public authorities could occur in the project development process. Misjudging the constitution of acquired land or infrastructure costs could increase the costs of a project.	5	5	Operational risks are managed through a structured internal corporate governance process. Bonava evaluates and manages risks through operational systems and developed processes and routines concerning, for example, preliminary project and detailed project planning processes as well as centralised procurement.	Decisions on the start of new projects and construction are taken while considering all available information to foresee short-term production capabilities.
10 Procurement	Errors in Bonava's procurement process could entail substantial risks to the company's finances and reputation. This includes failure to monitor the supply chain on the issue of compliance with principles of human rights, working conditions, the environment, anti-corruption, additional production costs and an inability to make payments on time.	4	4	Bonava has established a centralised procurement organisation and created a framework for the selection and review of its suppliers in order to increase control over and improve the coordination of procurement. Bonava has identified the requirements that each supplier must fulfil in order to qualify as a supplier to Bonava, with the principles of the UN Global Compact and Bonava's Code of Conduct as a starting point.	Close contact with own production departments and suppliers to assess the need for additional activities to ensure the integrity of supply chains as best as possible. A contingency plan has been devised and will be activated for supplies and services that are in jeopardy.
11 Design and production	Deficiencies in planning and implementing the production of housing units could lead to increased costs and/or unsatisfactory quality, resulting in increased guarantee costs and damage to the company's reputation. Deficiencies in planning the production of housing units could lead to increased production costs and unsatisfactory quality, resulting in increased guarantee costs and damage to the company's reputation.	4	4	Bonava seeks to increase the industrialisation of its production. Increased repetition and a greater exchange of know-how within the Group reduces the risk of repeating mistakes.	Bonava is maintaining ongoing planning and production activities while doing its utmost to protect the health of its employees, suppliers, and customers. The capability to proceed with operations is closely monitored for each construction site.
12 Environment and climate	Property operations and the utilisation of properties have an impact on the environment and are regulated by extensive environmental legislation. Claims could be raised against Bonava for soil remediation and protection of ecological values in accordance with the provisions of applicable environmental legislation. The suitability of land for development may change due to climate change.	2	3	Bonava's internal corporate governance in each market ensures compliance with national and local directives. Bonava has internal local resources and/or employs external experts to plan and carry out soil remediation or post-treatment as well as planning in close dialogue with local authorities. Bonava has Group-wide procedures and systems for alerts and communication regarding accidents and serious incidents as well as a professional Group-wide sustainability network.	No immediate impact from COVID-19. Some planned initiatives to develop in compliance with set Science Based targets for urgent climate action will slow down during the short-time work reduction program. In long term perspective current measures to mitigate COVID-19 risks will also benefit the climate action targets.
13 Personnel	Bonava's operations could be adversely affected if the company fails to recruit and retain employees, particularly in areas such as design, production and procurement.	4	4	Bonava has a structured recruitment process and places considerable emphasis on strengthening its reputation as an employer. The company offers competitive employment terms.	As of 6 April 2020, the company has introduced a short-term work reduction program for its Swedish operations. The program does not apply to staff that is essential to maintain financial reporting, sales, ongoing production, customer service, and critical support functions. Similar programs are prepared for Bonava's operations in other markets.

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Probability that the risk is realised, 1–5

Impact if the risk is realised, 1–5

OPERATIONAL RISKS					
Risk area	Description			Mitigating factors	Response to spread of coronavirus (COVID-19)
14 Health and safety	The health and safety of Bonava's employees and subcontractors are vulnerable to risks if the company cannot guarantee safe working conditions at its construction sites and offices.	5	4	Bonava makes no distinction between its employees and subcontractors' employees at sites managed by Bonava and adheres to a vision of "zero harm" with the ultimate objective of preventing the occurrence of all injuries and occupational illnesses. Bonava has established organisational structures and procedures to utilise synergies, govern operations and monitor occupational health and safety work across the Group. Bonava has implemented crisis management plans as well as Group-wide routines and systems for hazard and incident management that include notifications and alerts for severe accidents or incidents. A Group-wide health and safety network has also been established.	Extensive measures to protect the health & wellbeing of everyone working on Bonava's construction sites and offices have been introduced. Hygiene standards and guidance have been increased and follow instructions from local authorities. Contractor time schedules and safe work procedures have been adjusted to allow workers to keep distance. Site offices that have been entered by infected persons will be immediately locked down and replaced. The company has prohibited international and restricted domestic travel at an early stage. Health & Safety support is upheld physically and remotely.
15 IT	Inefficient IT architecture and IT operations could lead to decreased profitability and entail a security risk for the company.	4	4	Bonava has implemented a centralised IT organisation that continuously monitors and evaluates the company's business needs.	Bonava's IT environment is widely designed and capable to enable distance work for office staff. Performance of the infrastructure is continuously monitored. There are no indicators of a significant increase in risk due to the spread of the coronavirus (COVID-19) in this area.
16 Breach of internal and external regulations	Bonava's operations are governed by the laws in force as well as internal regulations and principles in the company's markets (including on anti-corruption) that are based in Bonava's values. Breaches of those internal and external rules could lead to significant damage to the company's reputation and finances.	3	3	Bonava pursues a comprehensive compliance programme ("Our Foundation") to manage these risks. Key elements of the programme include direct and online training programmes, extensive advisory services, a whistle-blower function and regular internal reporting and communication.	There is currently no indication for a significantly increased risk in this area.
17 Housing Market & Competition	A downturn in the housing market could lead to adverse financial results for Bonava. Increased competition can have a negative effect on the availability of land, employees and resources.	4	4	The housing market is continuously monitored by internal and external experts in order to foresee changing market conditions as soon as possible. Bonava carries out structured customer surveys and constantly optimises its production costs in order to always offer customers the products they demand.	Bonava has increased the frequency and scope of monitoring the rapidly changing market conditions to be able to adjust its activities accordingly.
18 Products/ Offering	Product development and an offering that do not meet our customers' requirements could lead to a decline in sales and financial disadvantages.	2	4	Bonava places significant emphasis on customer insights that enable the identification of the desired plan from potential customers using extensive inquiries and analyses.	It is currently not apparent that the spread of COVID-19 will have a lasting effect on customer preferences that need to be addressed specifically. Bonava is however closely monitoring this aspect.
19 Sales & Marketing	An inefficient sales and marketing strategy that is improperly implemented could lead to decreased sales.	3	3	The company benefits from centralised expertise that establishes marketing and sales processes supplemented by a well-established network of local experts and empirical analyses.	Extensive work is ongoing, and actions are taken to adjust our interaction with customers across Bonava's markets. That includes private showings, digital sales starts and other digital functionality to support the company's business.

Probability that the risk is realised, 1–5 Impact if the risk is realised, 1–5