MANAGEMENT REPORT

Risk Factors.

This chapter covers residual risks identified as potentially affecting the Company. The risks and impacts, which are described, already take into account the measures the Company has taken to anticipate them and mitigate their potential impact. Doing business involves taking risks: it is not possible to eliminate the potential impact of all risks identified, nor of any residual risk that may be borne by the Company and indirectly by its shareholders. The global economic and financial climate and current geopolitical context may accentuate certain risks related to Befimmo's business. This list of risks is based on information known at the time of writing this Annual Financial Report, and reflects only the specific and most material risk factors faced by the Company.

Risk Factors.

We first present the risks related to the business, thereafter the financial risks, the ESG risks and finally the risks related to regulation. In each category, the risks are ranked in order of importance of the residual risk, according to the probability of their materialisation and the estimated extent of their negative impacton the Company.

The list (see table on the right for a summary) is not exhaustive: there may be other risks which are unknown, improbable, non-specific, or unlikely to have an adverse effect on the Company, its business, or its financial situation.

STRATEGIC (S)	PROPERTY PORTFOLIO (P)	FINANCIAL (F)	ESG (E)	REGULATIONS (R)
Evolving ways of working (S1)	Fair value of properties (P1)	Financial liquidity (F1)	Climate change (E1)	Non-compliance of the buildings with the applicable regulations (R1)
Rental vacancy (S2)	Inadequate insurance cover (P2)	Volatility and share price (F2)	Environmental risk (E2)	BE-REIT status (R2)
(Re)development activites (S3)	Deterioration and obsolescence of buildings (P3)	Risk related to changing credit margins (F3)	Social risk (E3)	
Segmental concentration (S4)	Inflation and deflation (P4)	Risk associated with changing interest rates (F4)		
Geographical concentration (S5)		Obligations contained in financing agreements (F5)		
Default of tenants (S6)				

Main risks related to strategy

DESCRIPTION OF RISK	POTENTIAL IMPACT
S1. EVOLVING WAYS OF WORKING	
Office space is being used in increasingly flexible and mobile ways. New technology and digitalisation are facilitating the transformation from a static and "sequential" mode of operation to more dynamic business environments.	Tenants renting fewer square meters per employee) may lead to a decline in buildings' occupancy rates. See S2 for the impact of an increase in rental vacancy.
Businesses are looking for pleasant, stimulating and flexible working environments to help attract talent and develop collective intelligence.	Conventional office environments no longer meet expectations, which may result in greater investments to make the buildings attractive to the new requirements of the occupants (see S3 and P3).
This risk is accentuated by the pandemic, that accelerated the shift in working patterns (increased homeworking). The coworking business model is still developing.	Increased investments to prevent cybersecurity attack.
As of 31 December 2021, the portfolio of Befimmo consists of about 100% of office buildings and coworking spaces. The revenues as real-estate operator represent 92% of the rental income and the coworking spaces 8%.	
S2. RISKS RELATED TO RENTAL VACANCY	
Overall, the office property market is currently characterised by higher supply than demand, and by changing types of demand.	Decline in occupancy rates and a reduction in the operating results of the portfolio.
The Company is exposed to the risks of its tenants leaving or renegotiating their leases: - risk of loss of and/or reduced income - risk of negative reversion of rents - risk of pressure on renewal conditions, and to grant rent-free periods - risk of loss of fair value of properties, etc.	On an annual basis as of 31 December 2021, a 1% fluctuation in the occupancy rate of the Company's portfolio would have an impact of some €2.0 million on its property operating results, -€0.07 on the net asset value per share, and +0.06% on the debt ratio. Direct costs related to rental vacancies, namely charges and taxes on unlet properties. They are estimated on an annual basis at €2.8 million, equivalent to around 2.2% of total rental income.
At 31 December 2021, the weighted average duration of Befimmo's current leases and future signed leases until the next expiry of investment properties was 8.8 years. The occupancy rate of the properties available for lease at 31 December 2021 was 95.5%, compared with 97.1% at 31 December 2020. We refer to the Property report for more information (p. 28-52).	Higher marketing expenses for properties available for lease. Fall in the fair value of buildings (see P1).

DESCRIPTION OF RISK	POTENTIAL IMPACT
S3. RISKS RELATED TO (RE)DEVELOPMENT ACTIVITIES	
Risk associated with the renovation or (re)construction of buildings. In preparation for a new life cycle, the buildings in the portfolio must undergo a major renovation or be rebuilt. In this context Befimmo is exposed to risks related to: - changes in ways of working and tenants' requirements between obtaining permits and the commercialisation of the building - the choice of service providers (architects, contractors, specialist lawyers, etc.) - possible delays in permit obtention - construction (costs, delays, environmental damage and organisational problems, compliance, etc.), currently accentuated by the pandemic We refer to the Property report for consultation of the main renovation and (re)development projects (p. 41). As of 31 December 2021, the fair value of the buildings concerned by the mentioned projects represents 13.8% of the total fair value of the portfolio.	Construction and/or operating costs overrunning the budget. Absence of rental income on completion of the works and costs related to the vacancy. Pressure on marketing conditions and for granting rent-free periods. Negative impact on the occupancy rate of the portfolio.
S4. RISKS OF SEGMENTAL CONCENTRATION	
The portfolio is almost entirely composed of office buildings and coworking spaces (with the exception of a few shops on the ground floor of some buildings).	Sensitivity in terms of occupancy (S2) and valuation of the portfolio (P1) to the evolution of the office and coworking property market.
S5. RISKS OF GEOGRAPHICAL CONCENTRATION	
The Axento building in Luxembourg, the AMCA building in Antwerp, the Paradis tower in Liège, the Gateway building at Brussels airport, the WTC Tower 3 in Brussels and the Quatuor and ZIN projects in Brussels, each account for between 5 and 10% of the fair value of the portfolio as at 31 December 2021. The portfolio is not very diversified in terms of geography. It consists of office buildings and coworking spaces, mainly located in Brussels and its economic hinterland (68.4% of the portfolio as at 31 December 2021).	Sensitivity to developments in the Brussels office and coworking property market in terms of valuation (P1) and occupancy (S2) of the portfolio, which is characterised by a significant presence of European institutions and related activities.
S6. RISKS RELATED TO THE DEFAULT OF TENANTS	
Risks related to insolvency of tenants, as well as non-payment of the rent and rental charges. In 2021, 98.7% of rents due for 2021 were collected. We refer to the Property report for an overview of the main tenants (p. 36) and to Note 34A of the Financial Statements for the Credit risk (p.216) .	Loss of rental income; an increase in property charges where rental charges cannot be recovered; unexpected renta vacancies.

Main risks related to the property portfolio

DESCRIPTION OF RISK	POTENTIAL IMPACT
P1. RISK RELATED TO THE FAIR VALUE OF PROPERTIES	
Risk of a negative change in the fair value of the portfolio. Risk of real-estate experts overvaluing or under-valuing properties in relation to their actual market value. This risk is accentuated in market segments where a limited number of transactions provide few points of comparison: this holds true to some extent in the decentralised areas and periphery of Brussels (5.7%[1] of the portfolio), and more generally in the Belgian provincial towns. Risk accrued in case of an increase in rental vacancy (S2). We refer to the Property report for consultation of the conclusions of the real-estate expert coordinator on the way the buildings have been valuated (p. 51).	Impact on the Company's net results, equity, debt[2] and LTV[3] ratios. Impact on the Company's ability to distribute a dividend[4] if the cumulative negative changes in fair value were to exceed the total value of distributable and non-distributable reserves and the distributable portion of share premiums. On the basis of the data as at 31 December 2021, a 1% decline in the value of the property assets would have an impact of around -€28.7 million on net results, entailing a change of around -€1.06 in the net asset value per share, around +€0.42 in the debt ratio, and around +0.42% in the LTV ratio.
P2. RISKS RELATED TO INADEQUATE INSURANCE COVER	
Risk of a major loss affecting Befimmo's buildings with inadequate cover, especially in view of emerging unforeseen events related to climate change (e.g. floods, wildfires, etc.) (E1). We refer to the Property report for more information on the insured value (p. 38).	Costs of refurbishing the affected building. Fall in operating results of the portfolio and in the fair value of the building (P1) following the termination of the lease on unused premises, and therefore an unexpected rental vacancy (S2).
P3. RISK OF DETERIORATION AND OBSOLESCENCE OF BUILDINGS	
Risk of wear and tear and obsolescence relating to increasingly stringent requirements (legislative, societal or environmental). Befimmo's asset rotation strategy aims to crystallize the value of a property at an optimum point in the asset's life cycle. We refer to the Property report for an overview of the construction year or year of the last renovation per building (p.47). At 31 December 2021, 90% of Befimmo's consolidated portfolio was covered by "total guarantee" maintenance or omnium agreements[5].	Rental vacancies. (S2) Investments needed for buildings to meet regulatory requirements (R1) and tenants' expectations (S1).

1. Calculated on the basis of the fair value of investment properties at 31 December 2021.
2. The debt ratio is calculated in accordance with the Royal Decree of 13 July 2014.
3. Loan-to-value ("LTV") = [(nominal financial debts - cash)/fair value of the portfolio].
4. Please refer to the chapter "Appropriation of results (statutory accounts)" on page 103 of the Annual Financial Report. In addition, we refer to the Financial statements for an overview of the equity that cannot be distributed according to article 7:212 of the Code of Companies and Associations (p. 242).
5. These agreements cover repairs and replacement to the same or identical function of a number of technical equipment (HVAC, electricity, lifts, ...) to maintain the installation in good working order and to ensure that performance is maintained.

DESCRIPTION OF RISK	POTENTIAL IMPACT
P4. RISK OF INFLATION AND DEFLATION	
Risk of deflation on income, as Befimmo leases contain clauses indexing rents to changes in the Belgian "health index". In line with general practice, 97.5%[1] of the leases in Befimmo's consolidated portfolio contain provisions with a view to mitigating the effects of any negative indexing: - 42.4% provide for a floor on the basic rent - 55.1% contain a clause that sets the minimum at the level of the last rent paid The remaining 2.5% of the leases do not provide for any minimum rent. Risk of the costs the Company has to bear being indexed on a basis that changes faster than the health index.	The impact of the adjustment of rents can be estimated at €1.3 million on an annual basis per percentage point change in the health index.

Main financial risks

DESCRIPTION OF RISK	POTENTIAL IMPACT
F1. FINANCIAL LIQUIDITY RISK	
Befimmo is exposed to a liquidity risk related to the renewal of its financing as it reaches maturity, or for any additional funding needed to meet its commitments. The Company could also be exposed to this risk if its financing agreements were terminated. As of 31 December 2021, the ratio of debt provided by financing from banking institutions amounted to 71.3% spread over 8 banks (Belfius, BNP Paribas Fortis, ING, KBC, BECM (CM-CIC group), Agricultural Bank of China, Société Générale, ABN Amro), representing €1,048 million of available credit lines. The remainder is provided by a number of private placements in Europe. As of 31 December 2021, the Company had confirmed unused credit lines of €311.7 million including cash. The Company aims to continually anticipate its financing needs (notably for its investments) and keep a defined amount in confirmed unused lines at all times, so as to hedge this risk over a time frame of at least 12 months. The debt ratio (as per the Royal Decree of 13 July 2014) amounts to 43.1% at 31 December 2021 (the statutory limit being 65%) compared to 40.8% as at 31 December 2020. As of 31 December 2021, the weighted average duration of the debt is 4.1 years. All other things being equal, the Company has covered its financing needs for the next 12 months. We refer to the Financial report for additional information on the Financial structure (p. 100).	New financing arranged at a higher cost. Sale of assets under unfavorable conditions.

1. Based on the gross current rent as at 31 December 2021.

DESCRIPTION OF RISK	POTENTIAL IMPACT
F2. RISK LINKED TO VOLATILITY AND SHARE PRICE	
The Company is exposed to a significant discrepancy between the share price and the Company's net asset value. As of 31 December 2021, the discount of the share price compared to the net asset value is 44%.	More difficult access to new equity may limit development capacity. Adverse impact on the Company's reputation.
F3. RISK RELATED TO CHANGING CREDIT MARGINS	
The Company's financing cost also depends on the credit margins charged by banks and financial markets. These financing margins change in line with risk appetite in financial markets and with regulations, particularly in the banking sector (the "Basel IV" requirements) and the insurance sector (known as "CRD IV"). They also reflect the perception of the Company's credit risk profile. The graph exposing the maturity dates of the financing can be found on p 101 of this Annual Financial Report. The margins can also be affected by a change in the company's Standard & Poor's rating. On 21 June 2021, Standard & Poor's confirmed a rating of BBB/outlook stable for Befimmo's long- term borrowings and A-2 for its short-term borrowings.	An increase in financial charges and hence an adverse effect on EPRA earnings and net results. In 2022, an amount of €71 million will have to be refinanced. An increase in margins by 10 bps will have an impact of €0.1 thousands. Any downgrade of the rating would make it harder to obtain new financing. A rating reduction of one notch, from BBB to BBB-, would entail an additional financing cost estimated at €0.6 million, based on the debt structure and current contracts as at 31 December 2021. Adverse impact on the Company's standing with investors.

DESCRIPTION OF RISK	POTENTIAL IMPACT
F4. RISK ASSOCIATED WITH CHANGING INTEREST RATES	
Financial charges, the Company's main expense item, are largely influenced by the interest rates prevailing in the financial markets. Total borrowings as at 31 December 2021: - borrowings of €872.4 million (75.1% of total debt) are financed at fixed rates (fixed rates specified in agreements or rates fixed by IRS); - The remainder of the debt, €288.9 million, is financed at floating rates, €20 million of which is hedged against rising interest rates by means of optional instruments (collars[1]). The remaining 23.2% of total borrowings is therefore unhedged The counterparty banks for the hedging instruments are BECM (CM-CIC group), Belfius, BNP Paribas Fortis, ING, KBC, and NatWest Markets PLC (RBS Group). As at 31 December 2021, the Company's debt ratio is 43.1% and its LTV ratio is 40.9%. A change in interest rates alters the value of the financial assets and liabilities carried at fair value. At 31 December 2021, the net fair value of all the hedging instruments was -€22.1 million. Part of Befimmo's borrowings at 31 December 2021 are arranged at floating rates (23.2%), which therefore means that the debt does not change in value in line with changes in interest rates.	Increase in financial charges and drop in EPRA earnings and net results. In the context of current interest rates, the practice of some banks to set a 0% floor on Euribor, used as reference in financing contracts, has an adverse impact on financial charges. This practice can also create distortion between the floating rates used in financing contracts and IRS type hedging contracts. Without hedging, the impact of a rise in market rates of 0.25% would entail an increase in financial charges estimated at €1.5 million (annual amount calculated based on the debt structure as 31 December 2021). With the hedging arranged at 31 December 2021, the impact of a rise in market rates of 0.25% would entail an increase in financial charges estimated at €0.1 million (annual amount calculated based on the debt structure as at 31 December 2021. A change in interest rates could also have an impact, with a delayed effect, on valuations of the properties in the portfolio. Had the euro interest rate curve been 0.5% lower than the reference rate curves at 31 December 2021, the change in fair value of the financial assets and liabilities would have been -€27.5 million. In the opposite case, the change in fair value would have been €26 million.
F5. RISK RELATED TO OBLIGATIONS CONTAINED IN FINANCING AGREEMENTS	
Risk of financing agreements being cancelled, renegotiated, or terminated early should the Company fail to abide by the covenants (or other obligations) it made when signing those agreements, notably regarding financial ratios. This could also include cross default. Risk of a penalty if agreements are terminated prematurely. When the Company carries out a financing transaction on a foreign market, it is subject to laws and counterparties with which it is less familiar.	A challenge to a financing agreement would expose the Company to having to arrange additional financing at a potentially higher cost, or sell assets under unfavorable conditions.

1 Buying a COLLAR (buying a CAP and selling a FLOOR) places a ceiling (CAP) on the impact of a rise in interest rates, but also involves an undertaking to pay a minimum rate (FLOOR).

Main environmental, social and governance risks

DESCRIPTION OF RISK	POTENTIAL IMPACT
E1. RISK RELATED TO CLIMATE CHANGE	
Physical risk: - Extreme weather events (e.g., storms, floods, etc.) - Changes in precipitation patterns and extreme variability in weather patterns (e.g. increased average temperatures, etc.)	Deterioration of buildings (P3) and potential decrease in the value of buildings (P1). Interruption or slowing down of construction sites (S3).
Transition risk: - Increased cost of resources (water, energy) and building materials and techniques (e.g. recourse to geothermal energy, etc.) - Increasing regulatory requirements and stakeholder expectations regarding sustainability (energy efficiency, cost of carbon, circularity, etc.)	Obsolescence of buildings (P3) and potential decrease in the value of buildings (P1). Additional investments and costs which entail higher costs for the Company in ongoing projects. Additional requirements to access financing (F1).
We refer to page 70-76 for a description of the actions undertaken of the Company for combatting climate change.	
E2. ENVIRONMENTAL RISK	
During construction sites, there is a risk of water and soil pollution linked to the presence of hydrocarbons, chemicals, etc.	Negative impact on the Company's reputation and risk of litigation.
There is also a risk of air pollution due to dust emissions, fine particles, etc.	Loss of recognitions (certifications, etc.).
Redevelopment projects may impact biodiversity due to the loss of vegetation as a result of soil sealing. We refer to the Sustainability report for a description of the actions undertaken of the Company to reduce pollution and pressure on biodiversity (p. 79-80).	
E3. SOCIAL RISK	
Despite the policies and procedures (e.g. charter, code of ethics, code of conduct for suppliers, etc.) it has put in place, Befimmo cannot totally exclude the risk that its counterparties may not fully comply with Befimmo's ethical standards.	Negative impact on the Company's reputation.
Risk linked to the health, safety and well-being of the team.	
We refer to the Corporate Governance Statement (p. 129) and to the chapter "Taking care of our team" (p. 85) for additional information.	

Main risks related to regulations

DESCRIPTION OF RISK	POTENTIAL IMPACT
R1. RISKS RELATED TO NON-COMPLIANCE OF THE BUILDINGS WITH THE APPLICABLE REGULATIONS	
The Company runs the risk that one or more of its properties does not immediately meet all the applicable new standards and regulations.	Additional investments which entail higher costs for the Company and/or delays in ongoing projects (renovations, etc.). Fall in the fair value of a building (P1). The Company could be liable for non-compliance (e.g. in case of fire for failing to comply with safety standards). An adverse impact on the Company's reputation, business and results.
R2. RISKS RELATED TO BE-REIT STATUS	
Risk of non-compliance with the BE-REIT[1] regime. Risk of future adverse changes to that regime becoming less attractive to investors.	Loss of approval for BE-REIT status, and no longer qualifying for the transparent tax regime applicable to BE-REITs. Adverse tax consequences of the exit of the BE-REIT status. Early repayment by acceleration of payment of loans taken out by the Company. Any future adverse changes in the BE-REIT regime could lead to a decline in results or net asset value, increase the debt ratio (e.g. by applying new accounting rules), reduce the maximum debt ratio, or affect how a BE-REIT must distribute dividends to shareholders.

1 But this does not apply to its subsidiaries which are not institutional BE-REITs.