

RISK FACTORS

This chapter covers risks identified as potentially affecting the Company, and the measures it has taken to anticipate them, mitigate their potential impact, and turn them into opportunities.

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 (including from dialogue with all stakeholders) at the time of writing this Annual Financial Report, and reflects only the specific and most important risk factors faced by the Company.

The risks in each category are ranked in order of importance, according to probability and the estimated extent of their negative impact on the Company, without taking into account mitigation measures or Befimmo's positioning.

The list 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.





Main risks related to COVID-19

DESCRIPTION OF RISK	POTENTIAL IMPACT	BEFIMMO'S POSITION
RISK RELATED TO THE PANDEMIC CRISIS		
<p>The measures imposed by the authorities in the context of the COVID-19 global pandemic have led, and could lead in future, to businesses being shut down, and to lockdowns.</p> <p>The crisis may accelerate the evolution of the world of work.</p>	<p>Reduced demand for office space.</p> <p>The interruption or slow-down of construction work for redevelopment projects.</p> <p>Tenants may face financial difficulties which have an impact on the Company's income and cash flow.</p> <p>Less easy access to financing and/or increased credit margins required by banks and financial markets, with a potential impact on liquidity.</p> <p>Liquidity risk.</p> <p>Lower projected EPRA earnings, and a delay in the contribution of development projects.</p> <p>A more volatile share price.</p>	<p>Befimmo is aware that the crisis may accelerate the evolution of the world of work. We have been monitoring trends in this area for several years.</p> <p>With our coworking business, we offer more flexibility in terms of contract duration, use of workspaces, and the type of equipment required, and make a hybrid¹ offering that allows corporate customers to combine several space solutions in a Belux network.</p> <p>The Company has a solid base of tenants, with 63% of revenues (real-estate operator) provided by long leases with Belgian and European public institutions. The remainder is spread among tenants from a range of sectors, including large companies, with a very limited share in the retail sector (1% of consolidated rental income). Our top five corporate clients account for 18.5% of revenues (real-estate operator).</p> <p>Our coworking business accounted for about 4% of consolidated revenues as at 31 December 2020. 68% of Silversquare revenues for the year were generated in "private offices" used by small and medium-sized companies which have a higher resilience potential than "flex desks".</p> <p>The weighted average duration of current leases (as a real-estate operator) until the next expiry was 7.2 years at 31 December 2020, and 7.7 years until final expiry.</p> <p>The occupancy rate (real-estate operator) was 95.2% as at 31 December 2020.</p> <p>83% of office development projects in the pipeline are already pre-let.</p> <p>Financing needs are currently covered until the end of Q3 2022. Loan-to-Value (LTV) was 36.8% as at 31 December 2020.</p>

Main risks related to external factors

DESCRIPTION OF RISK	POTENTIAL IMPACT	BEFIMMO'S POSITION
RISK RELATED TO THE NEW WAYS OF WORKING		
<p>Office space is being used in increasingly flexible and mobile ways. New technology is facilitating the transformation from a static and "sequential" mode of operation to more dynamic business environments.</p> <p>Businesses are looking for pleasant, stimulating and flexible working environments to help attract talent and develop collective intelligence.</p>	<p>Tenants renting fewer square metres per employee) may lead to a decline in buildings' occupancy rates.</p> <p>Conventional office environments no longer meet expectations.</p> <p>The coworking business model is still developing.</p>	<p>The Company:</p> <ul style="list-style-type: none"> - is committed to a redesigned world of work where workspaces are organised according to the type of activity and the profile of the users - acquired a majority shareholding in a coworking company (Silversquare) - develops (with Silversquare) a Belux network of hybrid offices - integrates a mix of functions in new projects to ensure that the environment is conducive to the development of a genuine community life - develops projects integrated with the city, where the buildings become an ecosystem open to their urban environment, with a mix of functions

1. Befimmo will offer a variety of workspace solutions in a hybrid-office model, ranging from conventional offices to buildings devoted entirely to coworking, or a mix of both solutions. Users will enjoy flexibility in terms of time (duration of their contract), workspace (they can easily occupy more or less space depending on their needs) and meeting facilities. They will be able to move from one place to another, according to their preferences and working hours.

**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.

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.

A change in interest rates could also have an impact, with a delayed effect, on valuations of the properties in the portfolio.

Implement a policy of hedging our interest-rate risk: finance part of borrowings at fixed rates and arrange IRS financial instruments or CAP and FLOOR options on part of borrowings at floating rates.

Total borrowings as at 31 December 2020:

- borrowings of €976.8 million (96.6% of total debt) are financed at fixed rates (specified in agreements or fixed by IRS)
- the remainder of the debt, €33.9 million, is financed at floating rates, €20 million of which is hedged against rising interest rates by means of optional instruments (caps and collars). The remaining 1.4% of total borrowings is therefore unhedged

Without hedging, the impact of a rise in market rates of 0.25% would entail an increase in financial charges estimated at €1.3 million (annual amount calculated based on the debt structure as at 31 December 2020).

With the hedging arranged at 31 December 2020, the impact of a rise in market rates of 0.25% would entail an increase in financial charges estimated at €0.3 million (annual amount calculated based on the debt structure as at 31 December 2020).

As at 31 December 2020, the Company's debt ratio is 40.8% and its LTV ratio is 36.8%.

On 1 July 2020, Standard & Poor's confirmed a rating of BBB/outlook stable for Befimmo's long-term borrowings and A-2 for its short-term borrowings.

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.

An increase in financial charges and hence an adverse effect on EPRA earnings and net results.

Spread financing maturity dates over time and diversify sources of financing.

Optimise the use of financing by giving preference to financing with the lowest margins (e.g. depending on market conditions, a short-term commercial paper programme associated with long-term back-up lines or assignments of receivables from future rents).

RISK OF INFLATION AND DEFLATION

Risk of deflation on income, as Befimmo leases contain clauses indexing rents to changes in the Belgian 'health index'.

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 (not including protection) per percentage point change in the health index.

In line with general practice, 95.35%² of the leases in Befimmo's consolidated portfolio are written to mitigate the effects of any negative indexing:

- 44.95% provide for a ceiling on the basic rent
- 50.40% contain a clause that sets the minimum at the level of the last rent paid

The remaining 4.65% of the leases do not provide for any minimum rent.

Costs controlled by contractual agreements with contractors.

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).

2. Based on the gross current rent as at 31 December 2020.



Main risks related to strategy

DESCRIPTION OF RISK	POTENTIAL IMPACT	BEFIMMO'S POSITION
RISKS RELATED TO RENTAL VACANCY		
<p>Overall, the office property market is currently characterised by higher supply than demand, and by changing types of demand.</p> <p>The Company is exposed to the risks of its tenants leaving or renegotiating their leases:</p> <ul style="list-style-type: none"> - 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. 	<p>Decline in spot occupancy rates and a reduction in the operating results of the portfolio.</p> <p>On an annual basis at 31 December 2020, a 1% fluctuation in the spot 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 +0.07% on the debt ratio.</p> <p>Direct costs related to rental vacancies, namely charges and taxes on unlet properties.</p> <p>They are estimated on an annual basis at €1.9 million, equivalent to around 1.4% of total rental income.</p> <p>Higher marketing expenses for properties available for lease.</p> <p>Fall in the value of buildings.</p>	<p>Befimmo's investment strategy is focused on (but not limited to):</p> <ul style="list-style-type: none"> - quality office buildings, with a good location, good accessibility and a sufficient critical size - buildings that are well equipped and flexible, in an appropriate rental situation, and with potential for value creation <p>The Company is committed to the new world of work:</p> <ul style="list-style-type: none"> - a redesigned world of work where workspaces are organised according to activity and user profiles - expansion of the offering and potential targets with the acquisition of a majority shareholding in the Silversquare coworking company - develops (with Silversquare) a Belux hybrid office network - extensive and personalised range of services to make life easier for its tenants - a mix of functions in the new projects to ensure that the environment is conducive to the development of a genuine community life - projects integrated with the city, where the buildings become an ecosystem open to their urban environment, bringing together a mix of functions <p>The Company has a professional commercial team dedicated to finding new tenants and actively managing its relationship with customers.</p> <p>Steady cash flow depends mainly on rental income being secured. The Company strives to spread rentals risks by ensuring that a large proportion of its portfolio is let on long-term leases and/or to multiple tenants.</p> <p>At 31 December 2020, the weighted average duration of Befimmo's current leases until the next expiry was 7.2 years.</p> <p>The spot occupancy rate of the properties available for lease at 31 December 2020 was 95.2%, compared with 94.4% at 31 December 2019.</p> <p>The major projects in the North area are an opportunity for the Company to address the lack of Grade A¹ in Brussels.</p>
RISK RELATED TO THE COMPANY'S REPUTATION		
<p>Reputational risk in relation to stakeholders (current and prospective tenants, local residents, public authorities, current and potential investors, financial and other analysts, suppliers, etc.).</p> <p>Reputation is influenced by information disseminated by the media and on social networks.</p>	<p>Reputational damage to the Company could have adverse repercussions on share price, or when negotiating lease agreements or seeking financing.</p>	<p>Befimmo has a Corporate Governance Charter and a Code of Ethics drafted by the Board of Directors.</p> <p>The Code of Ethics requires ethical values to be observed in relations with customers, staff, partners and shareholders.</p> <p>In addition to its reporting requirements as a listed company and a BE-REIT, Befimmo communicates transparently and proactively with its stakeholders.</p> <p>The Company has a communication plan (internal and external) and a crisis communication plan. It commissions reputation analyses from specialist agencies.</p> <p>We monitor the media daily and issue any necessary corrections or clarifications.</p>

1. A new building (new build or major renovation) meeting the latest environmental, technical and spatial layout standards (notably efficient floor space). Generally, a building that is new or less than 5 years old.

**RISKS RELATED TO REDEVELOPMENT ACTIVITIES**

<p>Risk associated with the renovation or construction of buildings.</p> <p>In preparation for a new life cycle, the buildings in the portfolio must undergo a major renovation or be rebuilt.</p> <p>In this context Befimmo is exposed to risks related to:</p> <ul style="list-style-type: none"> - the choice of service providers (architects, contractors, specialist lawyers) - choice of use format - obtaining permits (difficulties, delays, changes in the law, etc.) - construction (costs, delays, compliance, etc.) - marketing 	<p>Construction and/or operating costs overrunning the budget.</p> <p>Absence of rental income on completion of the works and costs related to the vacancy.</p> <p>Pressure on marketing conditions and for granting rent-free periods.</p> <p>Negative impact on the occupancy rate of the portfolio.</p>	<p>We design innovative, sustainable and quality projects (incorporating the latest technologies) to satisfy market needs.</p> <p>Ongoing analysis of market needs:</p> <ul style="list-style-type: none"> - a redesigned world of work where workspaces are organised according to the users' type of business and their profile - wide and personalised range of services to make life easier for its tenants - a mix of functions in new projects to ensure that the environment is conducive to the development of a genuine community life - projects integrated with the city, where the buildings become an ecosystem open to their urban environment, bringing together a mix of functions <p>Proactive and repeated dialogue with the public authorities for permit applications.</p> <p>Choice of good quality services providers.</p> <p>Professional commercial team dedicated to finding new occupants.</p>
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RISKS RELATED TO MERGERS, DEMERGERS, ACQUISITIONS AND JOINT VENTURES

<p>Risk that the value of some assets has been over-estimated, or that hidden liabilities have been transferred to the Company during mergers, spin-offs or acquisitions, or joint ventures.</p>	<p>The need to revalue specific assets, or record liabilities that could entail a financial loss to the Company.</p>	<p>We take the usual precautions in operations of this type, mainly by carrying out full due-diligence exercises (real-estate, accounts, taxation, etc.) on properties contributed, and on absorbed or merged companies, that may involve obtaining guarantees.</p> <p>We take similar precautions in case of joint ventures.</p>
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RISKS OF SEGMENTAL CONCENTRATION

<p>The portfolio is almost entirely composed of office buildings (with the exception of a few shops on the ground floor of some buildings).</p>	<p>Sensitivity to the evolution of the office property market.</p>	<p>The Company has an investment strategy focused on but not limited to:</p> <ul style="list-style-type: none"> - quality office buildings, with a good location, good accessibility and a sufficient critical size - buildings that are well equipped and flexible, in an appropriate rental situation and with potential for value creation <p>The Company is committed to the new world of work:</p> <ul style="list-style-type: none"> - a redesigned world of work, where workspaces are organised according to the type of activity and the profile of the users - expansion of the offering and potential targets with the acquisition of a majority shareholding in the Silversquare coworking company - plans to develop (with Silversquare) a Belux hybrid office network - a mix of functions in the new projects to ensure that the environment is conducive to the development of a genuine community life - projects integrated with the city, where the buildings become an ecosystem open to their urban environment, bringing together a mix of functions
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RISKS ASSOCIATED WITH TENANTS

<p>Risks related to insolvency of tenants.</p>	<p>Loss of rental income; an increase in property charges where rental charges cannot be recovered; unexpected rental vacancies.</p> <p>Risk of pressure on renewal conditions and to grant rental gratuities, etc.</p>	<p>Prior review of the financial health of potential customers.</p> <p>Private-sector tenants' are required to provide a rental guarantee.</p> <p>Befimmo has a procedure for regularly monitoring outstanding receivables.</p>
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RISKS OF GEOGRAPHICAL CONCENTRATION

<p>The portfolio is not very diversified in terms of geography. It comprises office buildings, mainly located in Brussels and its economic hinterland (68% of the portfolio as at 31 December 2020).</p>	<p>Sensitivity to developments in the Brussels office property market, which is characterised by a significant presence of European institutions and related activities.</p>	<p>Under its investment strategy, the Company seeks to avoid excessive concentration of the portfolio in a single area or asset.</p> <p>For example, 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 8% of the fair value of the portfolio as at 31 December 2020.</p>
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1. The public sector tenants (Belgian Federal State, Flemish Region and European institutions), which occupy a significant part of the Company's portfolio (62.6% at 31 December 2020), calculated on the basis of the gross current rent at 31 December 2020, generally do not provide rental guarantees but have a more limited risk profile.

**RISKS RELATED TO THE COWORKING MARKET**

Risks related to the entry into a new and fast-developing market (control of the key factors of success, competition, etc.).

Profitability linked to the success of the underlying activity.

Taking a majority stake in a company (Silversquare) with broad experience in coworking.
The impact is relatively limited on Befimmo as it is developing this business gradually.

Main risks in the property portfolio

DESCRIPTION OF RISK**POTENTIAL IMPACT****BEFIMMO'S POSITION****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 true market value. This risk is accentuated in market segments where a limited number of transactions provides few points of comparison: this holds true to some extent in the decentralised areas and periphery of Brussels (7.4%¹ of the portfolio), and more generally in the Belgian provincial towns.

Impact on the Company's net results, equity, debt² and LTV³ ratios.

Impact on the Company's ability to distribute a dividend⁴ 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 2020, a 1% decline in the value of the property assets would have an impact of around -€27.6 million on net results, entailing a change of around -€1.02 in the net asset value per share, around +0.04% in the debt ratio, and around +0.4% in the LTV ratio.

The Company has an investment strategy focused on but not limited to:

- quality office buildings, with a good location, good accessibility and an adequate critical size
- buildings that are well equipped and flexible, in an appropriate rental situation and with potential for value creation

The Company is committed to the new world of work:

- a redesigned world of work, where workspaces are organised according to the type of activity and the profile of the users
- expansion of the offering and potential targets with the acquisition of a majority shareholding in the Silversquare coworking company
- plans to develop (with Silversquare) a Belux hybrid office network
- extensive and personalised range of services to make life easier for its tenants
- a mix of functions in the new projects to ensure that the environment is conducive to the development of a genuine community life
- projects integrate with the city, where the buildings become an ecosystem open to their urban environment, bringing together a mix of functions

Statutory rotation of independent experts, who are systematically informed of changes in the situation of the buildings, and regularly visit buildings.

RISKS RELATED TO INADEQUATE INSURANCE COVER

Risk of a major loss affecting buildings with insufficient cover.

Costs of refurbishing the affected building.

Fall in operating results of the portfolio and in the fair value of the building following the termination of the lease on unused premises, and therefore an unexpected rental vacancy.

Buildings are covered by a number of insurance policies (risk of fire, storm damage, water damage, etc.) covering loss of rent for a limited period (in principle for the time needed for reconstruction) and the cost of reconstruction, for a total sum (new reconstruction value, excluding the value of the land) of €1,905.8 million as at 31 December 2020.

Buildings are covered by a policy insuring against acts of terrorism.

RISK OF DETERIORATION AND OBSOLESCENCE OF BUILDINGS

Risk of wear and tear and obsolescence, relating to increasingly stringent requirements (legislative, societal or environmental).

Rental vacancies.

Investments needed for buildings to meet regulatory requirements and tenants' expectations.

Property is kept in a good state of repair and maintained in line with good practice in terms of energy, technical, and other performance criteria, by making an inventory of preventive and corrective maintenance work to be carried out, and establishing a works programme.

At 31 December 2020, 85% of Befimmo's consolidated portfolio was covered by "total guarantee" maintenance contracts.

Close monitoring of developments in existing environmental legislation, anticipation of new measures, and analysis of sector studies, with a view to incorporating new technologies and management tools as soon as possible into renovation projects.

Befimmo adopts an eco-responsible approach at every stage of a building's life, making optimal use of energy and natural resources.

1. Calculated on the basis of the fair value of investment properties at 31 December 2020.

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 earnings (statutory accounts)" on page 77 of this Annual Financial Report.

**RISKS RELATED TO PROJECT IMPLEMENTATION**

Risks of delays, budget overspending, environmental damage and organisational problems when erecting, redeveloping, or carrying out major works in buildings in the portfolio.

Risk of insolvency and non-compliance with specifications by contractors responsible for the works.

Adverse impact on the Company's results owing to loss of rental income and/or an increase in charges.

Adverse impact on the Company's reputation.

Site communication plan, dialogue with local residents, etc.

Monitoring of technical, budgetary and planning aspects has been introduced to manage the risks associated with this work.

Contracts with building contractors generally include measures to mitigate such risks (price ceilings, delay penalties, etc.).

Regarding environmental issues, specific measures are incorporated into specifications and contracts with successful tenderers.

Monitoring of compliance with these environmental measures while the works are in progress (notably by external environmental coordinators, ISO 14001 procedures, site audits, BREEAM assessors, etc.).

Regular assessment of main suppliers and service providers, and checks that co-contractors have no unpaid social contributions or taxes.

ENVIRONMENTAL RISKS

Environmental risks in terms of CO₂ emissions and soil, water, air, and noise pollution.

Risk of not achieving the Company's targets for improving its environmental performance and of losing certifications (BREEAM, ISO 14001, etc.).

Adverse environmental impact.

High costs for Befimmo.

Adverse impact on Befimmo's reputation with its stakeholders.

In some cases, an adverse impact on the fair value of the portfolio.

A responsible approach: for many years, Befimmo has taken action to gradually reduce the environmental impact of the activities it directly controls and influences.

Befimmo has implemented an ISO 14001-compliant Environmental Management System (EMS) which helps to anticipate environmental risks at both strategic level (acquisitions, major renovations, etc.) and operational level (building maintenance, use of buildings, etc.).

We analyse on a yearly basis the environmental performance and potential for improvement of the portfolio, and its compliance with the requirements associated with certifications obtained.

Befimmo adopts an eco-responsible approach at every stage of a building's life, making optimal use of energy and natural resources.

Main financial risks

DESCRIPTION OF RISK**POTENTIAL IMPACT****BEFIMMO'S POSITION****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.

New financing arranged at a higher cost.

Sale of assets under unfavorable conditions.

Adoption of a financial policy which diversifies the sources and maturities of its financing.

At 31 December 2020, the ratio of debt provided by financing from eight banking institutions was 58.3%. The remainder is provided by a number of private placements in Europe.

At 31 December 2020, the Company had confirmed unused credit lines of €461.6 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) amounts to 40.8% at 31 December 2020 (the statutory limit is 65%) compared to 42.7% as at 31 December 2019.

**RISK RELATED TO A CHANGE IN THE COMPANY'S RATING**

The Company's financing cost is mainly influenced by its Standard & Poor's rating.

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 -€0.07 million, based on the debt structure and current contracts as at 31 December 2020.

Adverse impact on the Company's standing with investors.

Regular review of the criteria (ratios) used to determine its rating, analysis of the potential impact of the Company's decisions on any changes in the rating, and the forecast changes in those ratios.

On 1 July 2020, Standard & Poor's confirmed a rating of BBB/outlook stable for Befimmo's long-term borrowings and A-2 for its short-term borrowings.

RISK RELATED TO COUNTERPARTY BANKS

Arranging finance or a hedging instrument with a financial institution creates a counterparty risk of that institution defaulting.

The Company might be unable to access the financing arranged or the cash flows to which it is entitled through hedging instruments.

Diversifying our banking relationships and working with banks that have an adequate rating or an acceptable level of risk.

As at 31 December 2020, the Company had a business relationship with several banks:

- at 31 December 2020, Befimmo had credit lines of €1,043.0 million provided by: Agricultural Bank of China Luxembourg, Banque Degroof Petercam, BECM (CM-CIC group), Belfius, BNP Paribas Fortis, ING, KBC, and Société Générale
- the counterparty banks for the hedging instruments are BECM (CM-CIC group), Belfius, BNP Paribas Fortis, ING, KBC, and NatWest Markets PLC (RBS Group)

The financial model is based on structural borrowing: the amount of cash deposited with financial institutions is structurally very limited, and was €2.4 million as at 31 December 2020 compared with €2.9 million at 31 December 2019.

RISK OF A CHANGE IN FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE

A change in interest alters the value of the financial assets and liabilities carried at fair value.

Had the euro interest rate curve been 0.5% lower than the reference rate curves at 31 December 2020, the change in fair value of the financial assets and liabilities would have been -€32.9 million. In the opposite case, the change in fair value would have been €30.8 million.

At 31 December 2020, the net fair value of all the hedging instruments was €-55.0 million.

Part of Befimmo's borrowings at 31 December 2020 are arranged at floating rates (56.81%), which therefore means that the debt does not change in value in line with changes in interest rates.

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 it made when signing those agreements, notably regarding financial ratios.

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.

Befimmo negotiates covenants with its counterparties at levels consistent with its estimated forecasts of changes in those indicators, and regularly analyses any changes in those forecasts.

Risk of a penalty if agreements are terminated prematurely.

Befimmo calls upon external consultants specialised in the matter.

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.

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.

More difficult access to new equity may limit development capacity.

To devise and implement a value-creation strategy.

Adverse impact on the Company's reputation.

Publish outlook and dividend policy.

Regular, transparent, and proactive communication with financial analysts and current and prospective investors.



Main risks related to regulation

DESCRIPTION OF RISK	POTENTIAL IMPACT	BEFIMMO'S POSITION
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.	<p>Additional investments which entail higher costs for the Company and/or delays in ongoing projects (renovations, etc.).</p> <p>Fall in the fair value of a building.</p> <p>The Company is liable for civil, administrative or criminal fines.</p> <p>Liability of the Company for non-compliance (e.g. in case of fire for failing to comply with safety standards).</p> <p>An adverse impact on the Company's reputation, business and results.</p>	<p>Befimmo has introduced procedures to:</p> <ul style="list-style-type: none"> - anticipate new standards and regulations (legislative and regulatory watch) - check the compliance of buildings, both newly-acquired (technical due diligence) and in the portfolio (product manager in charge of regulatory compliance, checks on compliance with standards and regulations, notably related to the environment) - bring the building concerned immediately into compliance by adopting these new standards and regulations (project management) <p>Tenants are made aware of their obligations in this regard by a clause in the standard lease.</p>
RISKS RELATED TO BE-REIT STATUS		
<p>Risk of non-compliance with the BE-REIT regime.</p> <p>Risk of future adverse changes to that regime.</p>	<p>Loss of approval for BE-REIT status, and no longer qualifying for the transparent tax regime applicable to BE-REITs.</p> <p>Early repayment by acceleration of payment of loans taken out by the Company.</p> <p>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.</p>	<p>A legal team with the necessary skills ensures strict compliance with current regulations and, as far as possible, anticipates changes in the law (legislation watch).</p> <p>The Company also calls upon external consultants.</p>
RISKS RELATED TO REGULATION		
The Company is exposed to changes in Belgian, European, and international law, and increasingly numerous and complex regulations, and to possible changes in their interpretation or application by the authorities or the courts, notably accounting, reporting, fiscal, environmental, urban-development and public-procurement regulations.	<p>Risk of adverse decisions and civil, criminal, or administrative liability, and the risk of not obtaining or renewing permits. This could adversely affect the Company's business, its results, profitability, financial situation and/or outlook.</p>	<p>A legal team with the necessary skills ensures strict compliance with current regulations and, as far as possible, anticipates changes in the law (legislation watch).</p> <p>The Company also uses external legal consultants.</p>

**TAX REGIME**

As a BE-REIT, the Company enjoys a specific tax regime. The legislator intended the BE-REIT to ensure a high degree of transparency for real-estate investments and distribute as much cash flow as possible while enjoying certain advantages.

BE-REITs pay corporate tax on a reduced base as long as at least 80% of their cash flows are distributed (calculated on the basis of Article 13 of the Royal Decree of 13.07.2014). BE-REITs are exempt from corporation tax on their results (rental income and capital gains realised minus operating costs and financial charges)¹.

The exit tax is calculated as per circular Ci.RH.423/567.729 of 23.12.2004, the interpretation or practical application of which is liable to change. The real value of a property, as referred to in that circular, is calculated after deducting registration fees and VAT, and differs from (and may be less than) the fair value of the property as set out in the BE-REIT's IFRS balance sheet. Any change to this circular could potentially entail an increase in the basis on which the exit tax is calculated.

Befimmo complies in all respects with the regulations in force, and the provisions of the above-mentioned circular, for the calculation of exit taxes it owes in connection with the transactions on which the tax is due.

Main operational risks

DESCRIPTION OF RISK	POTENTIAL IMPACT	BEFIMMO'S POSITION
OPERATIONAL RISK		
<p>Risk of loss or loss of earnings resulting from inadequate or failed internal processes, people, and systems or from external events (natural disasters, human error, etc.).</p> <p>Risk linked to the health, safety and well-being of the team.</p> <p>Risk of departure of key members of staff.</p>	<p>The Company is exposed to the risk of the loss or theft of sensitive data, financial loss, and interruption of business in the event of a failure of systems or processes.</p> <p>A loss of key skills could lead to a delay in achieving some of the Company's objectives.</p>	<p>Befimmo has a Corporate Governance Charter and a Code of Ethics, drafted by the Board of Directors.</p> <p>The Code of Ethics requires ethical values to be observed in relations with customers, staff, partners and shareholders.</p> <p>Internal audits of Befimmo's processes are regularly performed.</p> <p>A business continuity plan has been devised, consisting of measures which, in the event of a crisis, allow essential operations and services to continue, possibly in degraded mode, and a planned resumption of business. The plan covers both functional and IT aspects.</p> <p>Special attention is paid to staff health, safety, wellbeing and motivation.</p> <p>Pay is in line with market rates (benchmarking).</p> <p>Befimmo recognises the importance of dialogue with the team and managing the skills of team members.</p> <p>A procedure for the induction of new employees (mentoring system, etc.).</p> <p>As far as possible, Befimmo prepares for departures and ensures that know-how is passed on.</p>

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