

Second-Party Opinion

KBC Green Bond Framework

Evaluation Summary

Sustainalytics is of the opinion that KBC Green Bond Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds - Energy Efficient Buildings, Renewable Energy and Clean Transportation - are aligned with those recognized by the Green Bond Principles. Sustainalytics considers that investments in the eligible categories are expected to lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDGs 7 and 11.



PROJECT EVALUATION AND SELECTION KBC Group's Green & Social Bond Committee comprising representatives from the Group's Treasury, Group Corporate Sustainability and other business units will be responsible for evaluating and selecting projects in accordance with the eligibility criteria in the Framework. KBC Group has in place environmental and social risk management and mitigation processes that apply to all allocation decisions. Sustainalytics considers these risk management systems to be adequate and the project selection process to be in line with market practice.



MANAGEMENT OF PROCEEDS KBC Group's Treasury team will track the allocation of proceeds on a portfolio basis through an internal information system annually. KBC Group intends to allocate all proceeds at issuance. Pending allocation, proceeds will be temporarily held in cash, cash equivalents or invested in money market products. Sustainalytics considers this process to be in line with market practice.



REPORTING KBC Group commits to report on the allocation of proceeds on portfolio basis on its website on an annual basis. Allocation reporting will include information such as the total amount of proceeds allocated to eligible green assets, the amount of allocated eligible green assets per use of proceeds category, origination timeframe and maturity profile of the assets per use of proceeds category, the amount of unallocated proceeds and the share of financing versus refinancing. In addition, KBC intends to report on impact using the ICMA Harmonised Framework for Impact Reporting Handbook. Sustainalytics views the allocation and impact reporting as aligned with market practice.

EU Taxonomy

Sustainalytics has assessed the KBC Green Bond Framework for alignment with the technical screening criteria for substantial contribution (SC) to the environmental objectives of the EU Taxonomy and the do no significant harm (DNSH) criteria. Sustainalytics mapped the Framework's three eligibility criteria to five activities in the EU Taxonomy and assessed them as aligned with the applicable SC criteria. Of the 13 activities assessed for alignment with the relevant DNSH criteria, 12 were determined to be aligned and one activity was determined to be partially aligned. Sustainalytics is also of the opinion that the activities and projects to be financed under the Framework will be carried out in alignment with the EU Taxonomy's Minimum Safeguards.

Second-Party Opinion

Reviewed by:

MORNINGSTAR

SUSTAINALYTICS



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Report Sections

Introduction.....	2
Sustainalytics' Opinion	3
Appendices	11

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¹ This report updates Sustainalytics' Second-Party Opinion of 26 April 2018.

Introduction

KBC Group NV (“KBC”, the “Group” or the “KBC Group”) is a banking and insurance group headquartered in Brussels, Belgium. KBC was formed in 1998 following the merger of two Belgian banks (Kredietbank and CERA Bank) and a Belgian insurance firm (ABB Insurance). The Group provides a range of financial services in the retail and private banking, insurance and asset management sectors for its small and medium-sized enterprises (SMEs) and mid-cap clients. As of June 2023, KBC had 42,000 employees operating in its core markets of Belgium, Bulgaria, Czechia, Hungary and Slovakia.²

KBC has developed the KBC Green Bond Framework dated November 2023 (the “Framework”), under which intend to issue green bonds and use the proceeds to finance or refinance, in whole or in part, existing and future projects that are expected to create positive environmental impacts and contribute in the transition to a low-carbon economy in the EU and the UK.

The Framework defines eligibility criteria in three green categories:

1. Energy Efficient Buildings
2. Renewable Energy
3. Clean Transportation

KBC engaged Sustainalytics to review the KBC Green Bond Framework and provide a Second-Party Opinion³ on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2021 (GBP).⁴ The Framework has been published in a separate document.⁵

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁶ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2021, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds;
- The use of proceeds criteria alignment with the EU Taxonomy 2021 Delegated Act; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.14, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of KBC’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. KBC representatives have confirmed (1) they understand it is the sole responsibility of KBC to ensure that the information provided is complete, accurate and up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and KBC.

² KBC, “KBC Group passport”, at: <https://www.kbc.com/en/no-menu/kbc-group-passport.html?zone=>

³ The Framework updates and replaces KBC’s 2018 Green Bond Framework, for which Sustainalytics provided a Second-Party Opinion. KBC, “Second-Party Opinion: KBC Green Bond Framework”, (2018), at: https://www.kbc.com/content/dam/kbccom/doc/investor-relations/7-Debt-issuance/Green-Bonds/20180605_KBC_GB_SPO.pdf

⁴ The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-100621.pdf>

⁵ The KBC Green Bond Framework is available on KBC’s website at: <https://www.kbc.com/en/investor-relations/debt-issuance/kbc-green-bond.html>

⁶ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. Upon twenty-four (24) months following the evaluation date set stated herein, KBC is encouraged to update the Framework, if necessary, and seek an update to the Second-Party Opinion to ensure ongoing alignment of the Framework with market standards and expectations.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realized allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that KBC has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the KBC Green Bond Framework

Sustainalytics is of the opinion that the KBC Green Bond Framework is credible and impactful and aligns with the four core components of the GBP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
 - The eligible categories – Energy Efficient Buildings, Renewable Energy and Clean Transportation – are aligned with those recognized by the GBP.
 - KBC has confirmed to Sustainalytics that it will limit refinancing to capital and start-up expenditures and has not established a look-back period for refinancing activities under the Framework. Sustainalytics considers this to be aligned with market practice.
 - Under the Energy Efficient Buildings category, KBC may finance or refinance loans for acquisition and ownership of new and existent residential buildings in Belgium smaller than 5000 m², according to the following eligibility criteria:
 - Buildings built after 31 December 2020 that have a primary energy demand (PED) at least 10% lower than the threshold for nearly zero-energy building (NZEB) requirements at the time of acquisition.
 - Buildings built before 31 December 2020 that have obtained at least an EPC A or which belong to the top 15% of the national building stock expressed as operational PED.
 - Sustainalytics considers investments under this category to be aligned with market practice.
 - Under the Renewable Energy category, KBC may finance or refinance loans for equipment, development, manufacturing, construction, operation, distribution and maintenance of wind and solar energies in the EU and the UK, according to the following eligibility criteria:
 - Onshore and offshore wind energy projects and solar photovoltaic projects.
 - Manufacturing of components for onshore solar, and onshore and offshore wind energy projects. KBC has confirmed to Sustainalytics that such facilities financed under the Framework will be wholly dedicated to the manufacturing of renewable energy components.
 - Sustainalytics considers investments under this category to be aligned with market practice.
 - Under the Clean Transportation category, KBC may finance or refinance the purchase, rent, lease and operation of zero emissions vehicles in Belgium, according to the following eligibility criteria:
 - Private and public passenger vehicles fully powered by electricity or hydrogen, such as motorbikes, cars and light commercial vehicles.
 - Personal active mobility, such as bicycles.
 - Sustainalytics considers investments under this category to be aligned with market practice.

- **Project Evaluation and Selection:**
 - KBC's Green and Social Bond Committee (the "Committee") will be responsible for evaluating and selecting projects in accordance with the eligibility criteria in the Framework. The Committee consists of representatives from the Group Treasury, Group Corporate Sustainability and the representatives from Group's business units.
 - The Committee incorporates environmental and social risk management as part of the approval and monitoring process for eligible assets. Financing is subject to applicable regulatory, environmental and social requirements as well as assessment against KBC's sustainability policies and the standards of the KBC Group Sustainability Framework, which also provides exclusionary criteria. Sustainalytics considers KBC's environmental and social risk management systems to be adequate and aligned with market expectation. For additional details, refer to Section 2.
 - Based on the establishment of the Committee and the presence of risk management systems, Sustainalytics considers KBC's project evaluation and selection process to be in line with market practice.
- **Management of Proceeds:**
 - KBC's Treasury team will be responsible for the management of proceeds on a portfolio basis. The team will track and monitor the allocation of proceeds using an internal information system on an annual basis.
 - KBC intends to allocate all proceeds to the eligible assets at issuance. Pending allocation, proceeds will be temporarily held in cash, cash equivalents or invested in money market products.
 - Based on the use of an internal monitoring system and the disclosure of the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- **Reporting:**
 - KBC commits to report on the allocation of proceeds on a portfolio basis on the Group's website on an annual basis.
 - Allocation reporting will include information such as total amount of proceeds allocated to eligible green assets, amount of allocated eligible green assets per use of proceeds category, origination timeframe and maturity profile of assets per use of proceeds category, amount of unallocated proceeds and share of financing versus refinancing.
 - KBC intends to align its impact reporting with the ICMA Harmonised Framework for Impact Reporting Handbook.⁷ This may include key performance indicators such as installed renewable energy capacity (measured in GW or MW), expected or actual annual renewable energy generation (measured in MWh), estimated annual GHG emissions avoided (measured in tCO₂e), year of construction, certification level, estimated annual energy savings (measured in MWh or GWh) compared to a baseline, estimated annual GHG emissions avoided or reduced (measured in tCO₂e). The impact report will be available on the Group's website on an annual basis.
 - Based on the commitment to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Green Bond Principles 2021

Sustainalytics has determined that the KBC Green Bond Framework aligns with the four core components of the GBP. For detailed information, please refer to Appendix 4: Green Bond/Green Bond Programme External Review Form.

Alignment with the EU Taxonomy

Sustainalytics has assessed each of the Framework's eligible green use of proceeds criteria against the relevant criteria in the EU Taxonomy and determined their alignment with each of the Taxonomy's three sets of requirements. The results of this assessment are as follows:

Sustainalytics has assessed each of the Framework's eligible green use of proceeds criteria against the relevant criteria in the EU Taxonomy and determined their alignment with each of the Taxonomy's three sets of requirements. The results of this assessment are as follows:

⁷ ICMA, "Harmonised Framework for Impact Reporting", (2023), at: <https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Handbook-Harmonised-framework-for-impact-reporting-June-2023-220623.pdf>

1. Substantial Contribution to an Environmental Objective of the EU Taxonomy
The criteria defined in the three eligible categories of the Framework were mapped to five activities of the EU Taxonomy. All five activities were assessed as aligned with the applicable SC criteria of the EU Taxonomy
2. Do No Significant Harm (“DNSH”) Criteria
 - A total of 13 individual DNSH criteria apply to the five activities to which the Framework criteria were mapped, where, 12 were assessed to be aligned with the applicable DNSH criteria. One criterion was determined to be partially aligned with the applicable DNSH criteria.
3. Minimum Safeguards
 - Based on a consideration of the policies and management systems applicable to the Framework criteria, as well as the regulatory context in which financing will occur, Sustainalytics is of the opinion that the EU Taxonomy’s Minimum Safeguards requirements will be met.
 - For Sustainalytics’ assessment of alignment with the Minimum Safeguard, see Section 2 below.

Table 1 provides an overview of the alignment of KBC’s Framework with the with the applicable SC criteria and DNSH criteria of the EU Taxonomy.

Table 1: Summary of Alignment of Framework Criteria with the EU Taxonomy

EU Taxonomy activities corresponding to Framework Criterion	Alignment with Taxonomy Criteria		Alignment per EU Environmental Objective					
	SC	DNSH	Mitigation	Adaptation	Water	Circular Economy	Pollution	Eco-systems
7.7. Acquisition and ownership of buildings	■	■	■	■	–	–	–	–
4.3. Electricity generation from wind power	■	■	■	■	■	■	–	■
4.1. Electricity generation using solar photovoltaic technology	■	■	■	■	–	■	–	■
6.4. Operation of personal mobility devices, cycle logistics	■	■	■	■	–	■	–	–
6.5. Transport by motorbikes, passenger cars and light commercial vehicles	■	□	■	■	–	■	□	–

Legend	
Aligned	■
Partially aligned	□
Not aligned	☒
No applicable DNSH criteria for this Objective and/or Activity	–
Grey shading indicates the primary EU Environmental Objective	

Section 2: Sustainability Strategy of KBC

Contribution of Framework to KBC's sustainability strategy

Sustainalytics is of the opinion that KBC demonstrates a commitment to sustainability by incorporating ESG principles in its corporate strategy through the following aspects: i) increasing the net positive impact; ii) limiting the adverse impacts of its operations and portfolio on society and environment, and; iii) encouraging responsible behaviour and business ethics.⁸ KBC's climate strategy is informed by the UN Collective Commitment to Climate Action and is aligned with the Paris Agreement of keeping global warming well below 2°C while striving to achieve 1.5°C.⁹

Since 2018, KBC has been expanding its investor base and increasing allocation towards green project financing through the issuance of green bonds under the KBC Green Bond framework 2018.^{10,11} KBC has set medium- and long-term climate targets for its lending operations for the energy, real estate, transport, agriculture, cement, steel and aluminium sectors.¹² KBC aims to achieve a target of 75% share of renewable energy in its energy lending portfolio by 2030 and follows an approach to limit the financing and insurance of non-sustainable energy solutions.¹³ As of June 2021, KBC no longer maintains direct exposure to thermal coal. Furthermore, since 2022, KBC has implemented restrictions on financing of upstream oil and gas ventures and vertically integrated oil and gas companies.¹⁴ Since 2021, KBC has achieved carbon neutrality in its direct emissions and has reported 100% consumption of renewable energy in its own operations.¹⁵

KBC also manages responsible investments on behalf of its clients. The Group offers three types of responsible investing funds: i) best-in-class funds, which invest in companies and countries that excel in ESG criteria compared to their peers; ii) thematic funds, focusing on companies that offer a solution for specific environmental or social issues; and iii) impact investing funds targeting companies whose products or services have a positive impact on society and the environment.¹⁶ KBC aims to further achieve decarbonization of corporate investments by reducing the carbon intensity (scope 1 and 2) of its corporate investees in its responsible funds' portfolio by 50% by 2030 from a 2019 baseline.¹⁷

KBC has been reporting on its environmental sustainability since 2005 and has been a member of the UNEP's Finance Initiative since 2018.¹⁸ Additionally, KBC has aligned its strategy, lending, insurance and investment practices to the UN SDGs and adheres to international sustainability frameworks on reporting, such as SASB, GRI and TCFD.¹⁹

Sustainalytics is of the opinion that the KBC Green Bond Framework is aligned with the Group's overall sustainability strategy and initiatives and will further the Group's action on its key environmental priorities.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the proceeds from the green bonds issued under the Framework will be directed towards eligible projects that are expected to have a positive environmental impact. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks possibly associated with the eligible projects may include issues related to responsible lending, biodiversity loss due to infrastructure development, waste and emissions generated during construction and community relations. KBC plays a limited role in the development of projects being financed but it remains exposed to risks associated with the projects that it may finance by offering its financial services.

⁸ KBC, "KBC Group Sustainability Report 2022", (2023) at: <https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/PerfRep/2022/csr-sr-2022.pdf>

⁹ Ibid.

¹⁰ KBC, "KBC Green Bond Framework" (2018) at: https://www.kbc.com/content/dam/kbccom/doc/investor-relations/7-Debt-issuance/Green-Bonds/20180605_KBC_GB_Framework.pdf

¹¹ KBC, "KBC Green Bond" at: <https://www.kbc.com/en/investor-relations/debt-issuance/kbc-green-bond.html?zone=>

¹² KBC, "KBC Group Climate Report", (2022) at: <https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/20220930-climate-report.pdf>

¹³ Ibid.

¹⁴ Ibid.

¹⁵ KBC, "KBC Group Sustainability Framework" (2023) at: https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/FrameworkPolicies/CSD_CorporateSustainabilityFramework.pdf

¹⁶ KBC, "Socially Responsible Investments" at: <https://www.kbc.com/en/investments.html>

¹⁷ KBC, "KBC Group Sustainability Report 2022", (2023) at: <https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/PerfRep/2022/csr-sr-2022.pdf>

¹⁸ UNEP Finance Initiative, "KBC Group NV", at: <https://www.unepfi.org/member/kbc-group/>

¹⁹ KBC, "KBC Group Climate Report", (2022) at: <https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/20220930-climate-report.pdf>

Sustainalytics is of the opinion that KBC is able to manage or mitigate potential risks through implementation of the following:

- KBC has developed a Credit Risk Standards on Sustainable and Responsible Lending standard taking into account ESG factors in its lending activities to support and promote responsible lending practices. This standard provides guidance for the Group's entities on its commitment to responsible lending, the scope of its lending activities, types of activities considered eligible or restricted from financing and subsequent monitoring of the implementation of group-wide credit risk standards. In certain cases, lending is only possible subject to a positive sustainability advice. Through this standard, KBC aims to lend exclusively to bona fide borrowers who meet its client, credit and compliance criteria, which pertain to anti-money laundering, ethical codes, fraud prevention, data protection, as well as consumer and investor protection.²⁰
- To address biodiversity related risks associated with large-scale infrastructure construction, KBC has developed a Group Biodiversity policy, under which KBC commits to reducing its direct and indirect impact on biodiversity and enhancing its contribution to the sustainable use and management of biodiversity. The Group has also committed to excluding financing for activities that are situated within protected areas and those that significantly impact protected areas, lead to forest exploitation, result in land use change, lead to overexploitation of resources, contribute to climate change, lead to pollution or introduce invasive species.²¹
- To limit adverse impacts on the environment due to waste and emissions generated during its financed construction activities, KBC has established a Group Environmental Policy under which it has commits to assess the social and environmental impact of financed projects based on the Equator Principles. The Group actively applies and regularly reviews policies aimed at minimizing the environmental impact of its core activities by reducing the environmental and climate impact of its portfolio of loans, investments and insurance services.^{22,23}
- To mitigate community risks, KBC conducts internal processes to identify individuals or groups whose interests are or could be affected by KBC Group's activities through comprehensive analyses and collaboration with internal and external sustainability experts. The Group actively engages with its stakeholders, both at the Group and local levels, on an ongoing basis to comprehend their perspectives regarding the environmental and social challenges they encounter as a result of financed projects.²⁴
- KBC is a signatory to the Principles for Responsible Investment, the Principles for Sustainable Insurance and the UNEP FI Principles for Responsible Banking.²⁵

Based on these policies, standards and assessments, Sustainalytics is of the opinion that KBC has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Alignment with the EU Taxonomy's Minimum Safeguards

The EU Taxonomy recommends that companies have policies aligned with international and regional guidelines and regulations pertaining to human rights, labour rights, and combating bribery and corruption. Specifically, activities should be carried out in alignment with the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct. Additionally, companies should be in compliance with the International Labour Organisation's (ILO) Declaration on Fundamental Rights and Principles at Work.

Human Rights and Labour Rights

KBC has implemented the following policies and procedures regarding human and labour rights:

- KBC is a signatory to the UN Global Compact Principles and has established a Group Policy on Human Rights wherein the Group expects its borrowers to comply with local and international laws and regulations related to human rights. The Group's KBC Group Policy on Blacklisted Companies and KBC Group Policy on Controversial Regimes list all the companies and regimes whose business or governance activities are found to fundamentally violate human rights as per

²⁰ Shared with Sustainalytics confidentially.

²¹ KBC, "KBC Group Biodiversity Policy", at: https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/FrameworkPolicies/CSD_KBCGroupBiodiversityPolicy_May2020.pdf

²² KBC, "Sustainability Report", (2022), at: <https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/PerfRep/2022/csr-sr-2022.pdf>

²³ KBC, "KBC Group Environmental Policy", at: https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/FrameworkPolicies/CSD_KBCgroupEnvironmentalPolicy_en.pdf

²⁴ KBC, "Sustainability Report", (2022), at: <https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/PerfRep/2022/csr-sr-2022.pdf>

²⁵ Ibid.

the UN Global Compact Principles and lack any form of good governance, rule of law or economic freedom.²⁶

- KBC has established the Credit Risk Standards on Sustainable and Responsible Lending policy, the KBC Standards on Sustainable and Responsible Insurance and the KBC Standards on Sustainable and Responsible Advisory Services. These standards and policies guided the Group to develop due diligence measures to assess its borrowers' potential human rights risk while screening credit and insurance products and services. This screening process is supplemented by external screening through third-party data providers.²⁷
- KBC has committed to complying with the following: UN Guiding Principles on Business and Human Rights, UN Universal Declaration of Human Rights; OECD Guidelines for Multinational Enterprises; the eight ILO fundamental conventions and the Declaration on Fundamental Principles and Rights at Work; the Equator Principles; the UN Declaration on the Rights of Indigenous Peoples; the UK Modern Slavery Act and the UN Treaty on Prohibition of Nuclear Weapons.²⁸

Based on the work of its research services and its ESG Risk Rating assessment, Sustainalytics evaluated the performance of KBC in the area of human and labour rights and has not detected involvement in any relevant controversies that would suggest that the above policies are not adequate in addressing key risks. Sustainalytics is of the opinion that these measures appropriately safeguard minimum standards on human and labour rights in relation to the activities of the Framework.

Anti-bribery and anti-corruption

KBC has implemented the following policies and procedures regarding anti-bribery and anti-corruption:

- KBC has established an Anti-corruption Programme with the aim of establishing a group-wide approach for implementing all legal requirements arising from the UK Bribery Act and other legislation associated with anti-corruption measures. The programme includes group compliance rules, policies, procedures, controls, due diligence, training, monitoring, record keeping and monitoring of corruption practices to mitigate risks related to corruption and bribery for all its stakeholders. This policy mandates that every entity within KBC conducts an annual risk assessment to evaluate the nature and extent of its exposure to potential internal and external bribery risks, using predefined criteria.²⁹
- KBC performs anti-bribery checks as a part of its due diligence in consistency with the Anti-Corruption programme. The check is performed once every year via research investigation, assessment and monitoring of the counterparties that are considered as high risk.³⁰
- KBC has established a general framework to aid in anti-money laundering (AML) efforts and counter terrorism financing (CTF) across all entities of the Group. The framework requires compliance with all minimum standards on enterprise-wide risk management, know your customer, record keeping and monitoring of transactions. The AML and CTF reports are submitted to the Compliance Committees on a regular basis for review.³¹
- KBC has a Whistleblowing Policy that establishes a secure, confidential and accessible procedure for all stakeholders to raise concerns about bribery and corruption.³²

Based on the work of its research services and its ESG Risk Rating assessment, Sustainalytics evaluated the performance of KBC in the area of anti-bribery and anti-corruption and has not detected involvement in any relevant controversies that would suggest that the above policies are not adequate in addressing key risks. Sustainalytics is of the opinion that these measures appropriately safeguard against bribery and corruption in relation to the activities of the framework.

²⁶ KBC, "KBC Group Policy On Human Rights", at: https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/FrameworkPolicies/CSD_KBCGroupPolicyonHumanRights.pdf

²⁷ Ibid.

²⁸ Ibid.

²⁹ KBC, "KBC Group Anti-Corruption Statement Joined statement", at: https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/OurApproach/CSR_OA_policy_AntiCorruptionPolicyStatement.pdf#:~:text=The%20KBC%20Anti-Corruption%20program%20is%20the%20clustering%20of,anti-%20corruption%2C%20as%20described%20in%20this%20GCR%2019

³⁰ Ibid.

³¹ KBC, "KBC Group : Anti Money Laundering Policy", (2020), at: https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/OurApproach/CSR_OA_policy_KBCGROUPAntiMoneyLaunderingPolicy.pdf

³² KBC, "KBC Group Anti-Corruption Statement Joined statement", at: https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/OurApproach/CSR_OA_policy_AntiCorruptionPolicyStatement.pdf#:~:text=The%20KBC%20Anti-Corruption%20program%20is%20the%20clustering%20of,anti-%20corruption%2C%20as%20described%20in%20this%20GCR%2019

Based on these policies, standards and assessments, Sustainalytics is of the opinion that KBC's policies, guidelines and commitments are sufficient to demonstrate that the activities and projects to be financed under the Framework will be carried out in alignment with the EU Taxonomy's Minimum Safeguards.

Section 3: Impact of Use of Proceeds

All three use of proceeds categories are aligned with those recognized by the GBP. Sustainalytics has focused below on where the impact is specifically relevant in the local context.

Importance of financing green buildings in Belgium

In 2021, the buildings and construction sectors accounted for 34% of global energy demand and were responsible for 37% of CO₂ emissions related to energy and processes.³³ In order to meet the 1.5°C scenario in the Paris Agreement, the buildings sector must reduce its direct CO₂ emissions by 50% and its indirect emissions by 60% by 2030.³⁴ Consequently, all newly constructed buildings and 20% of the existing global building stock must achieve carbon neutrality by 2030.³⁵ Furthermore, the energy consumption of buildings must reduce by 35% by 2030 from a 2020 baseline, to reach net zero emissions by 2050.³⁶

The buildings sector in Belgium contributed to 26% of the country's energy-related CO₂ emissions in 2022 and accounted for 32% of the country's final energy consumption in 2019.^{37,38} Belgium has committed to achieve a 35% reduction in CO₂ emissions by 2030 compared to 2005 levels, and aims to achieve carbon neutrality by 2050.³⁹ The Belgian government aims to have a carbon-neutral energy mix and to fully decarbonize the buildings sector by 2050, leveraging retrofits and energy-efficient technologies to do so.⁴⁰ As a component of its 2021 recovery and resilience plan, Belgium has earmarked EUR 1 billion for the renovation of both public and private buildings to enhance their energy efficiency.⁴¹

Based on the above, Sustainalytics is of the opinion that KBC's investments in green buildings are expected to contribute to decarbonizing the building stock in the Belgium and contribute to the country's emission reduction goals.

Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The bonds issued under the KBC Green Bond Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Energy Efficient Buildings	11. Sustainable Cities and Communities	11.c Support least developed countries, including through financial and technical assistance, in building sustainable and resilient buildings utilizing local materials
Renewable Energy	7. Affordable and Clean Energy	7.2: By 2030, increase substantially the share of renewable energy in the global energy mix
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in

³³ UN Environment Programme, "Global Status Report for Buildings and Construction", (2022) at: https://globalabc.org/sites/default/files/inline-files/2022%20Global%20Status%20Report%20for%20Buildings%20and%20Construction_0.pdf

³⁴ UN Environment Programme, "Building sector emissions hit record high, but low-carbon pandemic recovery can help transform sector", (2020) at: <https://www.unep.org/news-and-stories/press-release/building-sector-emissions-hit-record-high-low-carbon-pandemic>

³⁵ IEA, "Renovation of near 20% of existing building stock to zero-carbon-ready by 2030 is ambitious but necessary", (2022), at: <https://www.iea.org/reports/renovation-of-near-20-of-existing-building-stock-to-zero-carbon-ready-by-2030-is-ambitious-but-necessary>

³⁶ IEA, "Buildings", (2022), at: <https://www.iea.org/reports/buildings>

³⁷ IEA, "Belgium – Energy Policy Review", (2022), at: https://iea.blob.core.windows.net/assets/638cb377-ca57-4c16-847dea4d96218d35/Belgium2022_EnergyPolicyReview.pdf

³⁸ IEA, "Belgium 2022 Energy Policy Review", (2022), at: https://iea.blob.core.windows.net/assets/638cb377-ca57-4c16-847dea4d96218d35/Belgium2022_EnergyPolicyReview.pdf

³⁹ Government of Belgium, "National burden sharing 2021-2030", at: <https://klimaat.be/klimaatbeleid/belgisch/nationaal/lastenverdeling>

⁴⁰ Government of Belgium, "Vision and strategic workstreams for a decarbonised Belgium by 2050", (2020), at: <https://climat.be/doc/visionandstrategicworkstreamsforadecarbonisedbelgiumby2050.pdf>

⁴¹ European Commission, "Belgium2023 Country Report", at: https://economy-finance.ec.europa.eu/system/files/2023-05/BE_SWD_2023_601_en.pdf

		vulnerable situations, women, children, persons with disabilities and older persons
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Conclusion

KBC has developed the KBC Green Bond Framework under which it intends to issue green bonds and use the proceeds to finance projects in these categories: Energy Efficient Buildings, Renewable Energy and Clean Transportation. Sustainalytics considers that the eligible projects are expected to create positive environmental impacts and contribute in the transition to a low-carbon economy in the EU and the UK.

The KBC Green Bond Framework outlines a process for tracking, allocating and managing proceeds, and makes commitments for KBC to report on allocation and impact. Sustainalytics considers that the KBC Green Bond Framework is aligned with the overall sustainability strategy of the Group and that the use of proceeds will contribute to the advancement of the UN Sustainable Development Goals 7 and 11. Additionally, Sustainalytics is of the opinion that KBC has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Sustainalytics has assessed the KBC Green Bond Framework for alignment with the technical screening criteria for substantial contribution (SC) to the environmental objectives of the EU Taxonomy, and the do no significant harm (DNSH) criteria. Sustainalytics mapped the Framework's three eligibility criteria to five activities in the EU Taxonomy and assessed them as aligned with the applicable SC criteria. Of the 13 activities assessed for alignment with the relevant DNSH criteria, 12 were determined to be aligned and one activity was determined to be partially aligned. Sustainalytics is also of the opinion that the activities and projects to be financed under the Framework will be carried out in alignment with the EU Taxonomy's Minimum Safeguards.

Based on the above, Sustainalytics is confident that KBC is well positioned to issue green bonds and that the KBC Green Bond Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles 2021.

Appendices

Appendix 1: Approach to Assessing Alignment with the EU Taxonomy

Sustainalytics has assessed each of the eligible green use of proceeds criteria in the Framework against the criteria for the relevant activity in the EU Taxonomy. This appendix describes Sustainalytics' process and presents the outcome of its assessment of alignment with the Taxonomy's applicable technical screening criteria for substantial contribution (SC) to an environmental objective of the EU Taxonomy and the applicable "do no significant harm" (DNSH) criteria. Sustainalytics' assessment involves two steps:

1. Mapping Framework Criteria to Activities in the EU Taxonomy

The initial step in Sustainalytics' assessment process involves mapping each criterion in the Framework to a relevant and applicable activity in the EU Taxonomy. Note that each Framework criterion may be relevant and applicable to more than one activity in the EU Taxonomy and vice versa. Sustainalytics recognizes that some Framework criteria relate to projects that do not map well to a specific activity in the EU Taxonomy. In such cases, Sustainalytics has mapped to the activity that is most relevant with respect to the primary environmental objective established in the EU Taxonomy.

In some cases, the Framework criteria cannot be mapped to an activity in the EU Taxonomy, as some activities are not yet covered by the EU Taxonomy. In other cases, some categories which are traditionally included in green bonds and loans may not be associated with a specific EU Taxonomy activity. While recognizing that financing projects in these areas may still have environmental benefits, Sustainalytics has not assessed these criteria for alignment.

Table 2 below displays Sustainalytics' mapping process for this report.

2. Determining Alignment with EU Taxonomy Criteria

The second step in Sustainalytics' process is to determine the alignment of each criterion with relevant criteria in the EU Taxonomy. Alignment with the SC criteria and the DNSH criteria is usually based on the specific criteria contained in the issuer's Framework, and may in many cases (especially DNSH criteria) also be based on management systems and processes or regulatory compliance. To assess alignment with the EU Taxonomy's Minimum Safeguards Sustainalytics has conducted an assessment of policies, management systems and processes applicable to the use of proceeds criteria, including the regulatory context in the geographical location of activities and projects. (See Section 2, above.)

In cases where the Framework criteria describe projects which are intended to advance EU environmental objectives other than Climate Mitigation or Climate Adaptation, the Taxonomy does not include relevant technical screening criteria. In these cases, Sustainalytics has assessed the activity for alignment with the DNSH criteria across all objectives.

Sustainalytics' detailed assessment of alignment is provided in Appendix 2.

Table 2: Framework mapping table

Framework Category	Framework Criterion (Eligible Use of Proceeds)	EU Taxonomy Activity	Corresponding NACE Code	Environmental Objective	Refer to Table
Energy Efficient Buildings	Mortgage loans and commercial loans to (re)finance new and existent residential buildings	7.7. Acquisition and ownership of buildings	L68	Mitigation	Table 03
Renewable Energy	Loans to (re)finance equipment, development, manufacturing, construction, operation, distribution and maintenance of renewable energy generation sources in the EU and the UK	4.3 Electricity generation from wind power	D35.11 and F42.22	Mitigation	Table 04
		4.1. Electricity generation using solar photovoltaic technology	D35.11 and F42.22		Table 05

Clean Transportation	(Re)financing of the purchase, renting, leasing and operation of zero-emission vehicles in Belgium: Fully electric, hydrogen vehicles and other non-fossil fuel-based vehicles for the transportation of passengers	6.4. Operation of personal mobility devices, cycle logistics	N77.11 and N77.21	Mitigation	Table 06
		6.5. Transport by motorbikes, passenger cars and light commercial vehicles	H49.32, H49.39 and N77.11		Table 07

Appendix 2: Comprehensive EU Taxonomy Alignment Assessment

The tables below provide a detailed assessment of the alignment of Issuer's Framework criteria with the EU Taxonomy's TSC and DNSH criteria for the relevant NACE activity.

Table 03

Framework Activity assessed		Mortgage loans and commercial loans to (re)finance new and existent residential buildings		
EU Taxonomy Activity		7.7. Acquisition and Ownership of Buildings		
Corresponding NACE Code		L68		
SC Criteria		Alignment		
Mitigation	- For buildings built before 31 December 2020, the building has at least an Energy Performance Certificate (EPC) class A. As an alternative, the building is within the top 15% of the national or regional building stock expressed as operational Primary Energy Demand (PED) and demonstrated by adequate evidence, which at least compares the performance of the relevant asset to the performance of the national or regional stock built before 31 December 2020 and at least distinguishes between residential and non-residential buildings. - For buildings built after 31 December 2020, the building meets the criteria specified in Section 7.1 of the Climate Delegated Act Annex I mentioned below, that are relevant at the time of the acquisition: - The Primary Energy Demand (PED)⁴² defining the energy performance of the building resulting from the construction, is at least 10 % lower than the threshold set for the nearly zero-energy building (NZEB) requirements in national measures implementing Directive 2010/31/EU of the European Parliament and of the Council.⁴³ The energy performance is certified using an as built Energy Performance Certificate (EPC). - For buildings larger than 5000 m²,⁴⁴ upon completion, the building resulting from the construction undergoes testing for	- For buildings built before 31 December 2020, KBC has confirmed to finance residential buildings in Belgium which fall within the top 15% of the national or regional building stock expressed as operational PED.⁴⁹ - For buildings built after 31 December 2020; - KBC intends to adhere to the TSC criteria for buildings as per the methodology described in Appendix 1 of the Framework. KBC has communicated to Sustainalytics that acquisition of residential buildings in Belgium under the Framework will have an EPC label in place.⁵⁰ - Buildings larger than 5000m² are not intended to be financed under the Framework. Therefore, this is not applicable. - Buildings larger than 5000m² are not intended to be financed under the Framework. Therefore, this is not applicable. - KBC has communicated to Sustainalytics that this is not applicable, as the expenditures under the Framework only include residential buildings smaller than 5000 m².	Aligned	

⁴² The calculated amount of energy needed to meet the energy demand associated with the typical uses of a building expressed by a numeric indicator of total primary energy use in kWh/m² per year and based on the relevant national calculation methodology and as displayed on the EPC.

⁴³ Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings (OJ L 153, 18.6.2010, p. 13)

⁴⁴ For residential buildings, the testing is made for a representative set of dwelling/apartment types.

⁴⁹ Underpinning of the top 15% is described in Appendix 1 of the Framework

⁵⁰ KBC has communicated to Sustainalytics that: (i) In the Flanders region, the Energy Performance of Building (EPB) reporter draws up the EPC Construction no later than 12 months after either the completion date of the permitted or notified work, or the date the house is first put into use, whichever occurs first; (ii) In the Walloon region, the EPC Construction should be drawn up within 6 -18 months after completion of the works. Therefore, it is important to note that KBC may not have the EPC Construction available at the time of allocation. Nevertheless, new buildings are expected to meet the PED requirements.

	airtightness and thermal integrity,⁴⁵ and any deviation in the levels of performance set at the design stage or defects in the building envelope are disclosed to investors and clients. As an alternative; where robust and traceable quality control processes are in place during the construction process this is acceptable as an alternative to thermal integrity testing. iii. For buildings larger than 5000 m²,⁴⁶ the life-cycle Global Warming Potential (GWP)⁴⁷ of the building resulting from the construction has been calculated for each stage in the life cycle and is disclosed to investors and clients on demand. 3. Where the building is a large non-residential building (with an effective rated output for heating systems, systems for combined space heating and ventilation, air-conditioning systems or systems for combined air-conditioning and ventilation of over 290 kW) it is efficiently operated through energy performance monitoring and assessment.⁴⁸		
DNSH Criteria		Alignment	
Climate Change Adaptation	Refer to the assessment set out in Appendix 3, Table 8		Aligned

Table 4

Framework Activity assessed	Loans to (re)finance equipment, development, manufacturing, construction, operation, distribution and maintenance of renewable energy generation sources in the EU and the UK		
EU Taxonomy Activity	4.3 Electricity generation from wind power		
Corresponding NACE Code	D35.11 and F42.22		
SC Criteria		Alignment	

⁴⁵ The testing is carried out in accordance with EN13187 (Thermal Performance of Buildings - Qualitative Detection of Thermal Irregularities in Building Envelopes - Infrared Method) and EN 13829 (Thermal performance of buildings. Determination of air permeability of buildings. Fan pressurisation method) or equivalent standards accepted by the respective building control body where the building is located.

⁴⁶ For residential buildings, the calculation and disclosure are made for a representative set of dwelling/apartment types.

⁴⁷ The GWP is communicated as a numeric indicator for each life cycle stage expressed as kgCO₂e/m² (of useful internal floor area) averaged for one year of a reference study period of 50 years. The data selection, scenario definition and calculations are carried out in accordance with EN 15978 (BS EN 15978:2011. Sustainability of construction works. Assessment of environmental performance of buildings. Calculation method). The scope of building elements and technical equipment is as defined in the Level(s) common EU framework for indicator 1.2. Where a national calculation tool exists or is required for making disclosures or for obtaining building permits, the respective tool may be used to provide the required disclosure. Other calculation tools may be used if they fulfil the minimum criteria laid down by the Level(s) common EU framework (version of [adoption date]: <https://susproc.jrc.ec.europa.eu/product-bureau/product-groups/412/documents>), see indicator 1.2 user manual.

⁴⁸ This can be demonstrated, for example, through the presence of an Energy Performance Contract or a building automation and control system in accordance with Article 14 (4) and Article 15 (4), of Directive 2010/31/EU.

Mitigation	The activity generates electricity from wind power.	Eligible by default.	Aligned
DNSH Criteria		Alignment	
Climate Change Adaptation	Refer to the assessment set out in Appendix 3, Table 8		Aligned
Sustainable use and protection of water and marine resources	In case of construction of offshore wind, the activity does not hamper the achievement of good environmental status as set out in Directive 2008/56/EC of the European Parliament and of the Council, ⁵¹ requiring that the appropriate measures are taken to prevent or mitigate impacts in relation to that Directive's Descriptor 11 (Noise/Energy), laid down in Annex I to that Directive, and as set out in Commission Decision (EU) 2017/848 ⁵² in relation to the relevant criteria and methodological standards for that descriptor.	KBC has communicated that projects seeking financing must obtain a full construction permit. The permitting process includes an Environmental Impact Assessment (EIA) screening, to determine if a full EIA is required, depending on size and location of the projects. Financing from KBC is extended only when borrowers commit to adhering to the preventive or mitigative measures outlined in the EIA. This requirement is ongoing throughout the loan documentation process. Before releasing funds, it is a condition precedent that a valid, enforceable, and appeal-free permit is in place. Additionally, KBC mandates that projects possess a valid permit and operate in accordance with the applicable regulations. Overall, KBC relies on EU, national, and local legislation, as all assets are located in either the EU or the UK. <u>EU nations:</u> KBC has confirmed to Sustainalytics that financed project's activity does not hamper the achievement of good environmental status as outlined in Directive 2008/56/EC which is transposed into the legislation of all the EU countries where KBC finances its projects,⁵³ including the Descriptor 11 of the Directive. <u>UK:</u> The Directive (2008/56/EC) is implemented in the UK through the Marine Strategy Regulations 2010, which consider compliance with appropriate measures related to energy and noise impact.	Aligned
Transition to a circular economy	The activity assesses availability of and, where feasible, uses equipment and components of high durability and recyclability and that are easy to dismantle and refurbish.	KBC has communicated to Sustainalytics that through internal assessment procedures, KBC checks for maintenance, performance and availability guarantees, providing an indication that the equipment and components used are durable and	Aligned

⁵¹ Directive 2008/56/EC of the European Parliament and of the Council of 17 June 2008 establishing a framework for community action in the field of marine environmental policy (Marine Strategy Framework Directive)

⁵² Commission Decision (EU) 2017/848 of 17 May 2017 laying down criteria and methodological standards on good environmental status of marine waters and specifications and standardized methods for monitoring and assessment, and repealing Decision 2010/477/EU (OJ L 125, 18.5.2017, p. 43)

⁵³ European Commission, "National transposition measures communicated by the Member States concerning: Directive 2008/56/EC of the European Parliament and of the Council of 17 June 2008 establishing a framework for community action in the field of marine environmental policy", at: <https://eur-lex.europa.eu/legal-content/EN/NIM/?uri=CELEX:32008L0056>

		recyclable. Given that wind projects have an average estimated lifetime of 20-25 years, KBC's credit contracts require maintenance agreements between the borrower and a professional maintenance provider to be in place, and failure to comply is considered an Event of Default. A reporting covenant mandates regular maintenance updates. These contracts ensure availability throughout the project's life. Furthermore, it is noted that 85-90% of wind turbine parts can be recycled typically.	
Protection and restoration of biodiversity and ecosystems	In case of offshore wind, the activity does not hamper the achievement of good environmental status as set out in Directive 2008/56/EC, requiring that the appropriate measures are taken to prevent or mitigate impacts in relation to that Directive's Descriptors 1 (biodiversity) and 6 (seabed integrity), laid down in Annex I to that Directive, and as set out in Decision (EU) 2017/848 in relation to the relevant criteria and methodological standards for those descriptors. Further, refer to the assessment set out in Appendix 3, Table 9	All eligible offshore wind projects have undergone an Environmental Impact Assessment (EIA), which encompasses an evaluation of hazards and potential adverse effects linked to the risks outlined in the DNSH Protection and restoration of biodiversity & ecosystems. KBC places reliance on EU, national, and local legislation. It is assumed that any significant concerns highlighted in the EIA will be addressed through preventative or mitigating measures in the permit. Before releasing the funds, it is a condition precedent to be satisfied that a valid, enforceable and free from appeal permit is in place. KBC is of the view that any material addressed issues/risks and required mitigating/preventing actions that are highlighted in the EIA are taken. <u>EU nations:</u> KBC has confirmed to Sustainalytics that financed project's activity does not hamper the achievement of good environmental status as outlined in Directive 2008/56/EC which is transposed into the legislation of all the EU countries where KBC finances its projects,⁵⁴ including Descriptor 1 and 6 of the Directive. <u>UK:</u> The Directive (2008/56/EC) is implemented in the UK through the Marine Strategy Regulations 2010, which consider compliance with appropriate measures related to biodiversity and seabed integrity.	Aligned

⁵⁴ European Commission, "National transposition measures communicated by the Member States concerning: Directive 2008/56/EC of the European Parliament and of the Council of 17 June 2008 establishing a framework for community action in the field of marine environmental policy", at: <https://eur-lex.europa.eu/legal-content/EN/NIM/?uri=CELEX:32008L0056>

Table 5

Framework Activity assessed		Loans to (re)finance equipment, development, manufacturing, construction, operation, distribution and maintenance of renewable energy generation sources in the EU and the UK	
EU Taxonomy Activity		4.1 Electricity generation using solar photovoltaic technology	
Corresponding NACE Code		D35.11 and F42.22	
SC Criteria		Alignment	
Mitigation	The activity generates electricity using solar PV technology.	Eligible by default.	Aligned
DNSH Criteria		Alignment	
Climate Change Adaptation	Refer to the assessment set out in Appendix 3, Table 8		Aligned
Transition to a circular economy	The activity assesses availability of and, where feasible, uses equipment and components of high durability and recyclability and that are easy to dismantle and refurbish.	KBC has communicated to Sustainalytics that the solar panels are engineered for durability, given their estimated lifespan of 20-30 years. Additionally, KBC has communicated that materials from solar panels are typically recyclable at rates ranging from 90 to 95%.⁵⁵ <u>EU Nations:</u> In compliance with EU regulations on Extended Producer Responsibility for waste electronics, including solar panels, all components are designed with consideration for recyclability, dismantlability, and refurbishment. In the EU nations, EU regulations are implemented and transposed to support the takeback, reuse and recycling processes (e.g., via a recycling fee per solar panel). <u>UK:</u> In the UK, regulations govern electrical and electronic equipment (EEE) to minimize incineration or landfilling of waste (WEEE). These measures promote product and component recovery, reuse, and recycling. The Waste Electrical and Electronic Equipment Regulations 2013 (as amended) form the foundation of UK legislation.⁵⁶	Aligned

⁵⁵ PV Cycle, at: <https://pvcycle.be/recyclage-2/>⁵⁶ Government of UK, "Guidance Regulations: Waste Electrical and Electronic Equipment (WEEE)", at: <https://www.gov.uk/guidance/regulations-waste-electrical-and-electronic-equipment>

Protection and restoration of biodiversity and ecosystems	Refer to the assessment set out in Appendix 3, Table 9	Aligned
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Table 6

Framework Activity assessed		(Re)financing of the purchase, renting, leasing and operation of zero-emission vehicles in Belgium: Fully electric, hydrogen vehicles for the transportation of passengers	
EU Taxonomy Activity		6.4. Operation of personal mobility devices, cycle logistics	
Corresponding NACE Code		N77.11 and N77.21	
SC Criteria		Alignment	
Mitigation	1. The propulsion of personal mobility devices comes from the physical activity of the user, from a zero-emissions motor, or a mix of zero-emissions motor and physical activity. 2. The personal mobility devices are allowed to be operated on the same public infrastructure as bikes or pedestrians.	KBC confirmed compliance to mentioned SC criteria under this activity.	Aligned
DNSH Criteria		Alignment	
Climate Change Adaptation	Refer to the assessment set out in Appendix 3, Table 8		Aligned
Transition to a circular economy	Measures are in place to manage waste, in accordance with the waste hierarchy, both in the use phase (maintenance) and the end-of-life, including through reuse and recycling of batteries and electronics (in particular critical raw materials therein).	KBC has communicated that KBC Autolease buys or leases bicycles for an average of 3 years before reselling them on the market. This means that KBC Autolease does not handle the end-of-life of the bicycles directly, thus limiting the risk of end-of-life waste management. KBC has confirmed that the expenses related to this activity are limited to Belgium. The Extended Producer Responsibility applies to the battery of electric bicycles and is overseen by BEBAT in Belgium.⁵⁷ Additionally, maintenance is conducted in Belgium, which means that the relevant EU Directives are applicable to its operations.	Aligned

⁵⁷ Bebat, "Recycling together, better for nature", at: <https://www.bebat.be/en>

Table 7

Framework Activity assessed		(Re)financing of the purchase, renting, leasing and operation of zero-emission vehicles in Belgium: Other non-fossil fuel-based vehicles for the transportation of passengers	
EU Taxonomy Activity		6.5. Transport by motorbikes, passenger cars and light commercial vehicles	
Corresponding NACE Code		H49.32, H49.39 and N77.11	
SC Criteria		Alignment	
Mitigation	The activity complies with the following criteria: a) for vehicles of category M1 and N1, both falling under the scope of Regulation (EC) No 715/2007: i) until 31 December 2025, specific emissions of CO₂, as defined in Article 3(1), point (h), of Regulation (EU) 2019/631, are lower than 50gCO₂/km (low-and zero-emission light-duty vehicles); ii) from 1 January 2026, specific emissions of CO₂, as defined in Article 3(1), point (h), of Regulation (EU) 2019/631, are zero. b) for vehicles of category L, the tailpipe CO₂ emissions equal to 0g CO₂e/km calculated in accordance with the emission test laid down in Regulation (EU) 168/2013.	KBC confirmed compliance to mentioned SC criteria under this activity.	Aligned
DNSH Criteria		Alignment	
Climate Change Adaptation	Refer to the assessment set out in Appendix 3, Table 8		Aligned
Transition to a circular economy	Vehicles of categories M1 and N1 are both of the following: (a) reusable or recyclable to a minimum of 85% by weight; (b) reusable or recoverable to a minimum of 95% by weight⁵⁸ Measures are in place to manage waste both in the use phase (maintenance) and the end-of-life of the fleet, including through reuse and recycling of batteries and electronics (in particular critical raw materials therein), in accordance with the waste hierarchy.	KBC has communicated that KBC Autolease has limited involvement in the end-of-life management of vehicles, reducing the risk associated with waste management. KBC has also confirmed that the expenses related to this activity are limited to Belgium. Additionally, cars fall under the Extended Producer Responsibility framework overseen by Febelauto in Belgium. In 2022, Febelauto reported that approximately 97.6% of the weight of cars was recovered, and 93.4% of the weight was reused or recycled in Belgium. Maintenance operations are conducted in Belgium, thus subjecting KBC Autolease to relevant EU Directives. Furthermore, KBC	Aligned

⁵⁸ As set out in Annex I of Directive 2005/64/EC of the European Parliament and of the Council of 26 October 2005 on the type-approval of motor vehicles with regard to their reusability, recyclability and recoverability and amending Council Directive 70/156/EEC (OJ L 310, 25.11.2005, p. 10).

		Autolease is actively developing a sustainable repair network, which includes contractual clauses pertaining to sustainability, with a specific focus on waste management and reduction.	
Pollution, prevention and control	a) Vehicles comply with the requirements of the most recent applicable stage of the Euro 6 light-duty emission type-approval⁵⁹ set out in accordance with Regulation (EC) No. 715/2007. b) Vehicles comply with the emission thresholds for clean light-duty vehicles set out in Table 2 of the Annex I to Directive 2009/33/EC of the European Parliament and of the Council.⁶⁰ c) For road vehicles of categories M and N, tyres comply with external rolling noise requirements in the highest populated class and with Rolling Resistance Coefficient (influencing the vehicle energy efficiency) in the two highest populated classes as set out in Regulation (EU) 2020/740 and as can be verified from the European Product Registry for Energy Labelling (EPREL). d) Vehicles comply with Regulation (EU) No 540/2014 of the European Parliament and of the Council.⁶¹	a) and b) KBC confirmed that this criterion is not applicable to the activity as the Framework excludes financing hybrid vehicles. c) KBC has confirmed that KBC Autolease program has stringent criteria for tyres and security, considering rolling resistance. However, KBC currently has no control over the specific Rolling Resistance Coefficient types of classes used. As such, KBC is not able to confirm that every vehicle will meet such requirement. d) Regulation (EU) No 540/2014 suggests electric vehicles to be equipped in the coming years with acoustic vehicle alerting systems (AVAS) to compensate for the lack of audible signals in electric and hybrid electric vehicles for the awareness of road users. It is expected that the car manufacturers, making cars available in the Belgian market, adhere to such regulations. Sustainalytics notes that KBC is unable to confirm adherence to Regulation (EU) 2020/740 and hence as assessed this criteria as partially aligned.	Partially Aligned

⁵⁹ Commission Regulation (EU) 2018/1832 of 5 November 2018 amending Directive 2007/46/EC of the European Parliament and of the Council, Commission Regulation (EC) No 692/2008 and Commission Regulation (EU) 2017/1151 for the purpose of improving the emission type approval tests and procedures for light passenger and commercial vehicles, including those for in-service conformity and real-driving emissions and introducing devices for monitoring the consumption of fuel and electric energy (OJ L 301, 27.11.2018, p. 1).

⁶⁰ Directive 2009/33/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of clean and energy-efficient road transport vehicles (OJ L 120, 15.5.2009, p. 5)

⁶¹ Regulation (EU) No 540/2014 of the European Parliament and of the Council of 16 April 2014 on the sound level of motor vehicles and of replacement silencing systems, and amending Directive 2007/46/EC and repealing Directive 70/157/EEC (OJ L 158, 27.5.2014, p. 131)

Appendix 3: Criteria for Do No Significant Harm (“DNSH”) to Climate Change Adaptation and Protection and Restoration of Biodiversity and Ecosystems

Table 8

Criteria for DNSH to Climate Change Adaptation		
DNSH Criteria	Alignment	
The physical climate risks that are material to the activities mentioned above have been identified by the Issuer by performing a robust climate risk and vulnerability assessment.⁶² The assessment must be proportionate to the scale of the activity and its expected lifespan, such that: - for investments into activities with an expected lifespan of less than 10 years, the assessment is performed, at least by using downscaling of climate projections; - for all other activities, the assessment is performed using high resolution, state-of-the-art climate projections across a range of future scenarios consistent with the expected lifetime of the activity, including, at least, 10 to 30 years climate projections scenarios for major investments. The issuer has developed a plan to implement adaptation solutions to reduce material physical climate risks to the selected activities under the Framework. - For new activities the Issuer ensures that adaptation solutions do not adversely affect the adaptation efforts or the level of resilience to physical climate risks of other people, of nature, of assets and of other economic activities and are consistent with local, sectoral, regional or national adaptation efforts. - For activities that involve upgrading or altering existing assets or processes, the Issuer must implement adaptation solutions identified within five years from the start of the activity. In addition, selected adaptation solutions must not adversely affect the adaptation efforts or the level of resilience to physical climate risks of other people, of nature, of assets and of other economic activities and are consistent with local, sectoral, regional or national adaptation efforts.	KBC has an internal process for analyzing climate risks to assess both physical and transitional risks linked to the financed projects. This analysis was developed through consultations with the Group’s internal and external stakeholders and aims to propose mitigation measure for the most material issue. The eligible green assets are selected based on result of the analysis which comply with the applicable DNSH criteria. <u>Climate risk and vulnerability assessment to assess the materiality of the physical climate risks on the economic activity:</u> - For energy efficient buildings, KBC has noted that building sector assets may have an expected lifespan exceeding 10 years. Based on its yearly Climate Risk Impact Maps, KBC has identified significant physical risks, particularly those related to water, that are relevant to its financed projects. These risks encompass floods, windstorm damage, and temperature fluctuations. KBC has communicated that for most of the Eligible Assets, climate assessments are conducted up until 2050 with high precision, utilizing state-of-the-art tools like the climate perturbation tool based on CMIP5, which includes, among others, RCP 8.5. - For wind and solar projects, KBC has communicated that the anticipated lifespan exceeds 10 years and the material risks identified pertain to wind-related factors, such as shifting wind patterns and extreme weather events. In the case of solar parks, the most significant risks are associated with water-related factors. - For zero-emission vehicles, KBC has confirmed that the assets are typically financed for a period of four years and are considered movable assets. For such assets, the estimated risks and vulnerability are limited to damage and insurance	Aligned

⁶² The EU Delegated Act identifies several climate related risks and classifies them into chronic or acute risks, Chronic risks include -changing temperature (air, freshwater, marine water), changing wind patterns, changing precipitation patterns and types, coastal erosion, heat stress, ocean acidification, sea-level rise, and solifluction. Acute risks pertain to – heat/ cold wave, wildfire, cyclone, hurricane, tornado, storm, drought, landslide, flood, and glacial lake outburst. For a complete list of climate related risk please refer to Section 2 of Appendix E of EU’s draft delegated regulation (Annex 1), at: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12302-Climate-change-mitigation-and-adaptation-taxonomy#ISC_WORKFLOW

claims due to extreme weather conditions such as hail, ice and flooding.

Assessment of adaptation solutions that can reduce the identified physical climate risks:

- For energy efficient building, KBC will be using flood maps to identify the vulnerable assets. KBC has confirmed that it currently excludes assets situated in flood prone zones. All financed assets are in line with EU and local legislation such as building code etc.) The coastal flood risk is expected to be mitigated by raising dykes and by creating natural flood areas (according to Masterplan Kustveiligheid and Sigmaplan). Further, KBC estimates damages due to wind storm to be minor and considers impacts of temperature variability to be mitigated by solid foundations.
- For solar and wind assets, KBC has communicated that the wind patterns and extreme weather can be managed by shutting down wind turbines during storms. The legislation that applies to the financed projects requires a verification on the need for an EIA, with identified material issues addressed or mitigated to be mentioned in the permit.
- Regarding zero emission vehicles, KBC follows procurement policies during asset acquisition. The Group prioritizes sustainable practices by reselling assets as second-hand vehicles or bicycles at the end of their lifecycle. Additionally, KBC establishes strategic partnerships for the proper disposal of tires and total-loss vehicles. The measures are carried out in adherence to EU and local legislation.

KBC finances those projects and assets that have received government approval. The Group ensures rigorous compliance checks and requires upfront evidence before providing financing for any asset or project. Failure to meet the specified requirements at any point during the contract triggers an event of default, enabling KBC to unilaterally terminate the agreement. This serves as a strong incentive for regulatory adherence.

Implementation of adaptation plan for activities that involve upgrading or altering existing assets:

- For energy efficient buildings, KBC confirms that the renovation of buildings is not included in its Framework and, as such, does not require the implementation of adaptation solutions within five years from the start of the activity.
- Regarding wind and solar projects, KBC has communicated to Sustainalytics that financing excludes expenditures related to refurbishment or renovation of existing wind or solar assets.

	In the case of zero emission vehicles, that the implementation of adaptation solutions within five years from the start of the activity for existing projects is not pertinent to the expenditures under the Framework.	
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Table 9

Criteria for the Protection and Restoration of Biodiversity and Ecosystems		
DNSH Criteria	Alignment	
- An Environmental Impact Assessment (EIA) or screening has been completed, for activities within the Union, in accordance with Directive 2011/92/EU. For activities in third countries, an EIA has been completed in accordance with equivalent national provisions or international standards. - Where an EIA has been carried out, the required mitigation and compensation measures for protecting the environment are implemented. - For sites/operations located in or near biodiversity-sensitive areas (including the Natura 2000 network of protected areas, UNESCO World Heritage sites and Key Biodiversity Areas, as well as other protected areas), an appropriate assessment, where applicable, has been conducted and based on its conclusions the necessary mitigation measures are implemented.	KBC has confirmed that that EIA requirements are integrated into the permitting process in the EU countries where eligible assets are situated, adhering to EU regulations. For the UK, the Directive 2011/92/EU has also been transposed.⁶³ In addition, compliance with the EU Biodiversity Strategy (COM (2011) 244), the Birds and Habitats Directives (2009/147/EC and 92/43/EEC), and the IFC's Performance Standard 6, has been transposed into national and local law. Overall, KBC only finances those projects and assets that hold government-granted permits, ensuring rigorous checks and upfront evidence prior to financing. Any necessary mitigation and compensation measures outlined in the EIA must be translated and enforced through the permit and operating license. Before releasing the funds, the condition precedent is to ensure that a valid, enforceable, and appeal-free permit and operating license are in place.	Aligned

⁶³ EUR-Lex, "Directive 2011/92/EU of the European Parliament and of the Council of 13 December 2011 on the assessment of the effects of certain public and private projects on the environment (codification) Text with EEA relevance", (2014), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32011L0092>

Appendix 4: Green Bond / Green Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	KBC Group NV
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	KBC Green Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	November 22, 2023
Publication date of review publication:	Update to 2018 Sustainalytics SPO
Original publication date:	published on April 26, 2018

Section 2. Review overview

SCOPE OF REVIEW

The review:

- ☒ assessed the 4 core components of the Principles (**complete review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*).
- ☐ assessed only some of them (**partial review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*); please indicate which ones:
- | | |
|---|---|
| ☐ Use of Proceeds | ☐ Process for Project Evaluation and Selection |
| ☐ Management of Proceeds | ☒ Reporting |
- ☐ assessed the alignment with other regulations or standards (CBI, EU GBS, ASEAN Green Bond Standard, ISO 14030, etc.); please indicate which ones:

ROLE(S) OF INDEPENDENT REVIEW PROVIDER

- | | |
|--|---|
| ☒ Second Party Opinion | ☐ Certification |
| ☐ Verification | ☐ Scoring/Rating |
| ☐ Other (please specify): | |

Does the review include a sustainability quality score?

- | | |
|---|--|
| ☐ Of the issuer | ☐ Of the project |
| ☐ Of the Framework | ☐ Other (please specify): |
| ☐ No scoring | |

ASSESSMENT OF THE PROJECT(S)

Does the review include:

- ☒ The environmental and/or social features of the type of project(s) intended for the Use of Proceeds?
- ☒ The environmental and/or social benefits and impact targeted by the eligible Green and/or Social Project(s) financed by the Green, Social or Sustainability Bond?
- ☒ The potentially material environmental and/or social risks associated with the project(s) (where relevant)?

ISSUER'S OVERARCHING OBJECTIVES

Does the review include:

- ☒ An assessment of the issuer's overarching sustainability objectives and strategy, and the policies and/or processes towards their delivery?
- ☒ An identification and assessment of environmental, social and governance related risks of adverse impact through the Issuer's [actions] and explanations on how they are managed and mitigated by the issuer?
- ☒ A reference to the issuer's relevant regulations, standards, or frameworks for sustainability-related disclosure and reporting?

CLIMATE TRANSITION STRATEGY

Does the review assess:

- ☐ The issuer's climate transition strategy & governance?
- ☐ The alignment of both the long-term and short/medium-term targets with the relevant regional, sector, or international climate scenario?
- ☐ The credibility of the issuer's climate transition strategy to reach its targets?
- ☐ The level/type of independent governance and oversight of the issuer's climate transition strategy (e.g., by independent members of the board, dedicated board sub-committees with relevant expertise, or via the submission of an issuer's climate transition strategy to shareholders' approval).
- ☐ If appropriate, the materiality of the planned transition trajectory in the context of the issuers overall business (including the relevant historical datapoints)?
- ☐ The alignment of the issuer's proposed strategy and targets with appropriate science-based targets and transition pathways that are deemed necessary to limit climate change to targeted levels?
- ☐ The comprehensiveness of the issuer's disclosure to help investors assess its performance holistically?

Overall comment on this section:

Section 3. Detailed review

1. USE OF PROCEEDS

Does the review assess:

- ☒ the environmental/social benefits of the project(s)?
- ☒ whether those benefits are quantifiable and meaningful?
- ☒ for social projects, whether the target population is properly identified?

Does the review assess if the issuer provides clear information on:

- ☐ the estimated proceeds allocation per project category (in case of multiple projects)?
- ☐ the estimated share of financing vs. re-financing (and the related lookback period)?

Overall comment on this section:

The eligible categories for the use of proceeds -Energy Efficient Buildings, Renewable Energy and Clean Transportation - are aligned with those recognized by the Green Bond Principles. Sustainalytics considers that investments in the eligible categories are expected to lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDGs 7 and 11.

2. PROCESS FOR PROJECT EVALUATION AND SELECTION**Does the review assess:**

☒ whether the eligibility of the project(s) is aligned with official or market-based taxonomies or recognized international standards? Please specify which ones: *Sustainalytics has a proprietary taxonomy which is influenced by the EU taxonomy, Climate Bonds Initiative taxonomy as well as international standards.*

☒ whether the eligible projects are aligned with the overall sustainability strategy of the issuer and/or if the eligible projects are aligned with material ESG-related objectives in the issuer's industry?

☒ the process and governance to set the eligibility criteria including, if applicable, exclusion criteria?

☒ the processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s)?

☒ any process in place to identify mitigants to known material risks of negative social and/or environmental impacts from the relevant project(s)?

Overall comment on this section:

KBC Group's Green & Social Bond Committee comprising representatives from Group's Treasury, Group Corporate Sustainability and other business units will be responsible for evaluating and selecting projects in accordance with the eligibility criteria in the Framework. KBC Group has in place environmental and social risk management and mitigation processes that are applicable to all allocation decisions. Sustainalytics considers these risk management systems to be adequate and the project selection process to be in line with market practice.

3. MANAGEMENT OF PROCEEDS**Does the review assess:**

☒ the issuer's policy for segregating or tracking the proceeds in an appropriate manner?

☒ the intended types of temporary investment instruments for unallocated proceeds?

☐ Whether an external auditor will verify the internal tracking of the proceeds and the allocation of the funds?

Overall comment on this section:

KBC Group's Treasury team will track the allocation of proceeds on a portfolio basis through an internal information system, annually. KBC Group intends to allocate all proceeds at issuance. Pending allocation, proceeds will be temporarily held in cash, cash equivalents or invested in money market products. Sustainalytics considers this process to be in line with market practice.

4. REPORTING**Does the review assess:**

☒ the expected type of allocation and impact reporting (bond-by-bond or on a portfolio basis)?

☒ the frequency and the means of disclosure?

☐ the disclosure of the methodology of the expected or achieved impact of the financed project(s)?

Overall comment on this section:

KBC Group NV commits to report on the allocation of proceeds on portfolio basis, which will be published on its website on an annual basis. Allocation reporting will include information such as, the total amount of proceeds allocated to eligible green assets, the amount of allocated eligible green assets per use of proceeds category, origination timeframe and maturity profile of the assets per use of proceeds category, the amount of unallocated proceeds and the share of financing versus refinancing. In addition, KBC intends to report on impact using the ICMA Harmonised Framework for Impact Reporting Handbook. Sustainalytics views the allocation and impact reporting as aligned with market practice.

Section 4. Additional Information

Useful links (e.g., to the external review provider's methodology or credentials, to the full review, to issuer's documentation, etc.)

Analysis of the contribution of the project(s) to the UN Sustainable Development Goals:

Additional assessment in relation to the issuer/bond framework/eligible project(s):

ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP

- i. Second-Party Opinion: An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognized external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Green Bond Scoring/Rating: An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialized research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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In case of discrepancies between the English language and translated versions, the English language version shall prevail.

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For more information, visit www.sustainalytics.com

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