

Second-Party Opinion

KBC Green Bond

Evaluation Summary

Sustainalytics is of the opinion that the KBC is credible and impactful, and aligns with the four core components of the Green Bond Principles 2017. Additionally, Sustainalytics views the KBC's green bond positively. This opinion is based on:



USE OF PROCEEDS The eligible categories for the use of proceeds are aligned with those recognized by the Green Bond Principles. Sustainalytics considers the eligibility criteria to be aligned with market practice.



PROJECT EVALUATION / SELECTION KBC's internal process in evaluating and selecting projects is aligned with market best practice. KBC has a dedicated Green Bond Committee on manager level, requires compliance of borrowers with the environmental and social processes and policies of the Equator Principles, alignment of projects with KBC's investment policies and the projects' eligibility is reviewed by an independent auditor.



MANAGEMENT OF PROCEEDS KBC's processes for management of proceeds is aligned with market practice. KBC has a system to label and monitor allocated eligible assets.



REPORTING KBC intends to report allocation proceeds in a report to investors on an annual basis. In addition, KBC is committed to reporting on the impact of the eligible assets by category, including impact indicators such as GHG savings, subject to availability of data. In Sustainalytics' view reporting on these metrics is in line with market practice.

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Introduction

KBC Group ("KBC", or "the company") is a European financial group with a focus on providing bank-insurance products and services to retail, SME and mid-cap clients. KBC has developed the KBC Green Bond Framework ("the framework") under which it will issue multiple green bonds and use the proceeds to finance and refinance expenditures related to promoting a low-carbon economy and thus contribute to a sustainable financial market. The net proceeds of each green bond will be used to finance and refinance, in whole or in part, existing and future projects under eligibility criteria in seven areas:

1. Renewable Energy
2. Energy Efficiency
3. Clean Transportation
4. Green Buildings
5. Pollution Prevention & Control
6. Water Management
7. Sustainable Land Use

KBC engaged Sustainalytics to review the KBC Green Bond Framework and provide a second-party opinion on the alignment of the framework with the Green Bond Principles 2017 (the "GBP"), as administered by the International Capital Market Association (the "ICMA")¹, and the framework's environmental credentials. The green bond framework has been published as a separate document on the website of KBC².

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 the management of proceeds and reporting aspects of the KBC's green bonds. Sustainalytics also reviewed relevant public documents and non-public information. Following this engagement between KBC and Sustainalytics, some elements of the Green Bond Framework were clarified to ensure an alignment with the level of disclosure expected by ICMA's Green Bond Principles (GBP), 2017.

This document contains Sustainalytics' opinion of the KBC Green Bond Framework and should be read in conjunction with that framework.

¹ ICMA's Green Bond Principles 2017 <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/GreenBondsBrochure-JUNE2017.pdf>

² <https://www.kbc.com/en/kbc-green-bond#tab>

Sustainalytics' Opinion

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

Summary

Sustainalytics is of the opinion that the KBC Green Bond Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2017. Some of its key strengths are that:

- Use of Proceeds:
 - The use of proceeds categories Renewable Energy, Energy Efficiency, Clean Transportation, Green Buildings, Pollution Prevention & Control, Water Management and Sustainable Land Use are recognized as impactful by the Green Bond Principles.
 - Where relevant, some of the eligibility criteria refer to credible third-party standards, such as LEED, BREEAM and HQE for green commercial buildings and the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC) (see [Appendix 1](#) for additional details on the certification schemes). In addition, KBC applies market best practice for geothermal energy, limiting direct GHG emissions from eligible projects to below 100g CO₂/kWh.
 - While KBC does not indicate a lookback period in its Green Bond Framework, it has committed to disclose the lookback period for refinancing to investors per issuance.
- Project Selection Process:
 - KBC has a dedicated Green Bond Committee for project evaluation and selection comprised of members from the KBC Group Treasury and Corporate Sustainability at general manager level. KBC requires compliance of borrowers with the environmental and social processes and policies of the Equator Principles and alignment of projects with KBC's investment policies. Moreover, projects' eligibility will be reviewed by an independent auditor, overall aligning with market best practice.
- Management of Proceeds:
 - In line with market practice, KBC labels and tracks the allocated amounts of each green bond.
- Reporting:
 - KBC intends to report on an annual basis the amount of allocated and unallocated proceeds, which is aligned with market practices.
 - KBC also committed to report on impact indicators on an annual basis for all eligible categories subject to the availability of information, baseline data and methodologies, which is aligned with market practices. Sustainalytics welcomes KBC's intent to develop specific impact indicators for all use of proceeds categories, once green bond proceeds will be allocated to these categories.

Alignment with Green Bond Principles 2017:

Sustainalytics has determined that the KBC Green Bond Framework aligns with the four core components of the Green Bond Principles 2017. For detailed information please refer to [Appendix 4](#): Green Bond/Green Bond Programme External Review Form.

Section 2: Sustainability Performance of KBC

Contribution of framework to KBC's sustainability strategy and targets

Sustainability at KBC is integrated into the company's strategic decision-making and core business operations, with direct accountability at the Group Executive Committee, which reports biannually to the board on sustainability. KBC's commitment to Sustainability is further underpinned by KBC's adoption of the Equator Principles since January 2004, as well as support for the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"), UN Global Compact, UNEP FI and the Energy Efficient Mortgages Action Plan (EEMAP)³.

Within its Environmental Policy⁴, KBC commits to develop and offer products and services to support a sustainable, low carbon and climate resilient society and has translated this commitment into sustainability targets. These targets include, among others, the immediate stop of financing coal related activities, with exception of coal based energy production in the Czech Republic, which is planned to be exited no later than 2050, increase the volume of sustainable investment to 10 billion euros by 2020, increase the share of renewables in the total energy credit portfolio to 50% by 2030 and reduce its own GHG emissions by at least 20% - absolute and per FTE - by 2020 (relative to 2015 and excluding commuter travel).

KBC reports on its progress towards these goals. For example, in 2017, 42.1% of KBC's total energy credit portfolio was in the renewable energy sector and KBC achieved its 2018 goal to double the total volume of sustainable investment funds to 5 billion euros from 2016. Sustainalytics is of the opinion that reporting on targets and performance as per KBC's Environmental Policy is indicative of the priority the company assigns to achieving positive environmental impact.

Given KBC's sustainability strategy and commitments, executive responsibility for sustainability, as well as KBC's sustainability targets and progress reporting, Sustainalytics believes that KBC is well positioned to issue green bonds and that its green bonds will help KBC advance in its sustainability strategy.

Well positioned to address common environmental and social risks associated with the projects

KBC has strong investment policies⁵ which restrict investments in controversial and sensitive activities. In addition, KBC monitors its loan compliance with these standards through screening and sustainability assessments. Sustainalytics is of the opinion that the company's policies and monitoring activities demonstrate KBC's preparedness to manage social and environmental risks related to the use of proceeds of the green bonds. The policies include restrictions on the coal-fired and oil based electricity generation, arms-related activities, project finance, gambling, fur, palm oil production, mining operations, deforestation, land acquisition, the involuntary resettlement of indigenous people and prostitution.⁶ In addition, the company requires compliance of borrowers with the environmental and social processes and policies of the Equator Principles.

While Sustainalytics believes that KBC is prepared to manage social and environmental risks related to the use of proceeds of the green bond, below certain risks related to KBC's eligibility criteria Sustainable Forestry and Energy from Biomass are outlined:

KBC's eligibility criteria for Sustainable Forestry are aligned with credible third-party standards, i.e. FSC and PEFC. While FSC and PEFC both contain rigorous standards and are aligned with international norms, PEFC has faced some criticism from civil society organizations (See [Appendix 1](#) for Sustainalytics' assessment of the relative strengths and weaknesses of FSC and PEFC certifications). For this reason, Sustainalytics recommends that KBC favour FSC-certified forests in allocating proceeds to forestry-related projects.

Furthermore, Sustainalytics welcomes KBC's clarification that biomass under the criterion Energy from Biomass will be derived from sources that do not compete with food production and that the biomass not be grown in areas with high biodiversity. However, the use of energy from non-waste biomass poses environmental and social risks. These risks relate to the production of GHG emissions in the process of biomass conversion, i.e. the GHG profile depends on feedstocks and conversion pathways and thus

³ The Energy Efficient Mortgages Action Plan (EEMAP) aims to create a standardized energy efficient mortgage offering.

⁴ https://www.kbc.com/en/system/files/doc/sustainability-reponsability/FrameworkPolicies/CSD_KBCgroupEnvironmentalPolicy_en.pdf

⁵ KBC's policies can be found on the corporate website: <https://www.kbc.com/en/policies>

⁶ https://www.kbc.com/en/system/files/doc/sustainability-reponsability/FrameworkPolicies/CSD_CorporateSustainabilityFramework.pdf

potentially poses environmental risk. In addition, the production of biomass poses risk related to land and water use, which is dependent on species selection and the management practices used to produce bioenergy feedstocks.⁷

Section 3: Impact of Use of Proceeds

All seven use of proceeds categories are recognized as impactful by GBP. Sustainalytics focusses on a few selected use of proceeds categories in the following section.

Contribution of Renewable Energy, Energy Efficiency, Clean Transportation and Green Buildings projects to Belgium's climate commitments

Latest climate data indicates that Belgium stands out as the European Union's (EU) eighth largest emitter of GHG emissions on a per capita basis, largely attributed to the country's energy consumption patterns. Belgium has set GHG and renewable energy targets for 2020 for the sectors outside the Emission Trading System (ETS), i.e. transportation, agriculture, construction and waste. These targets aim at 15% GHG emissions reduction in 2020 compared to the 2005 levels and an increase of renewable energy to 13% in final energy consumption by 2020. In addition, Belgium aims to achieve 18% improvement of the country's overall energy efficiency in 2020 compared to the 2007 levels.⁸ The European Commission indicated that an estimated EUR 180 billion in additional investments per year is required across the EU to support member countries' energy transition to a low-carbon economy.⁹ Sustainalytics recognizes the positive environmental benefits of the renewable energy, energy efficiency and green buildings projects included in the KBC Green Bond Framework and considers that KBC's proposed projects in this area will help bridge the private green funding gap in Belgium, supporting the country's efforts to meet its climate commitments.

Moreover, current and projected mobility patterns in Belgium offer KBC the opportunity to exercise its societal responsibility and assist public and private initiatives to decouple the country's overreliance on fossil fuel transportation and support electrified mobility, thus further supporting the country's climate efforts.

Assessment of Green Buildings Criteria and Certifications

KBC's commercial Green Buildings criterion is based on third-party certification standards, namely LEED (≥ "Gold"), BREEAM: (≥ "Very Good), HQE: (≥ "Excellent"). Sustainalytics views these certification schemes as credible, transparent and adequate in ensuring the proper integration of environmental considerations during all stages of a building's life-cycle. In addition, KBC's methodology for green residential buildings aligns with market standards, including the top 15% energy efficient residential buildings. Sustainalytics has conducted an evaluation of the green residential building methodology (please consult [Appendix 2](#)) and the certification standards (please consult [Appendix 3](#)), and considers that KBC's green buildings investments will deliver significant environmental benefits, namely real estate energy efficiency improvements. Furthermore, Sustainalytics welcomes KBC's commitment to update the methodology for eligible residential green buildings with evolving market standards in the future.

Importance Pollution Prevention and Control activities in Belgium

Latest Eurostat data indicated that Belgium has the second highest waste generation rates in the EU¹⁰, however, largely reversed by the country's waste treatment ratio which stood at 73.9% in 2014.¹¹ To further reinforce the national pollution prevention and control framework, Belgium implemented EU's Action Plan on the Circular Economy¹² into a set of 21 measures¹³ aiming to decouple economic growth from resource

⁷ <https://www.climatebonds.net/files/files/Bioenergy%20Background%20Paper%20to%20eligibility%20criteria.pdf>

⁸ <https://www.iea.org/policiesandmeasures/pams/belgium/name-42632-en.php?s=dHlwZT1jYyZzdGF0dXM9T2s&return=PG5hdiBpZD0iYnJlYWRjcVtYil-PGEgaHJlZj0iLyl-SG9tZTwvYT4gJnJhcXVvOyA8YSBocmVmPSlvcG9saWNpZXNhbmRtZWZdXJlcy8iPlBvbGljaWVzIGFuZCBnZWZdXJlcwvYT4gJnJhcXVvOyA8YSBo cmVmPSlvcG9saWNpZXNhbmRtZWZdXJlcy9jbGltYXRlY2hhbmRlLyl-Q2xpbWFOZSBDaGFuZ2U8L2E-PC9uYXY->

⁹ Financing a Sustainable European Economy, Final Report 2018 by the High-Level Expert Group on Sustainable Finance; https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report_en.pdf

¹⁰ EuroStat, Waste Generation 2004 and 2014, [http://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Waste_generation_excluding_major_mineral_wastes_2004_and_2014_\(kg_per_inhabitant\)-1.png](http://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Waste_generation_excluding_major_mineral_wastes_2004_and_2014_(kg_per_inhabitant)-1.png)

¹¹ EuroStat, Waste Treatment 2014, http://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Waste_treatment_2014-1.png

¹² Communication of the European Commission to the Parliament 2015: Closing the loop - An EU action plan for the Circular Economy, <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52015DC0614&from=FR>

¹³ https://www.health.belgium.be/sites/default/files/uploads/fields/fpshealth_theme_file/econ-circ-fr-light.pdf

consumption and incentivize the adoption of circular economy adapted products. Sustainalytics is confident that KBC's loans financing waste prevention, reduction, recycling and remanufacturing will contribute to the improvement of Belgium's pollution prevention and control performance and provide significant environmental benefits by decreasing the country's landfilling needs.

Importance of Water Management projects in Belgium

Most recent OECD data¹⁴ on the climate change impact on Belgium's water systems predicts a significant mean temperature rise in both summer and in winter by 2050, which is linked to increased water scarcity and quality during the drought periods combined with an increase in the number of heavy rainfall episodes. In addition, the OECD has warned that metropolitan and coastal regions in Belgium will be increasingly vulnerable to flood risks due to the reduction of ground surface permeability and the projected sea level increase of up to 90 cm by the end of the century.¹⁵ Sustainalytics is confident that KBC's proposed loans to finance urban drainage systems and flood mitigation projects will proactively enhance the country's climate change preparedness in relation to its water systems, in addition to helping to restore the country's hydrographic water network.

EU organic farming contribution to sustainable land use and carbon sequestration

Agriculture (land use, land use change and forestry) accounts for 10% of the EU-28 total GHG emissions, with agricultural land covering about 45% of the overall EU territory.¹⁶ The UN Food and Agriculture Organization (FAO) recognizes the positive environmental contribution of organic farming to the increase in soil carbon sequestration due to the replacement of synthetic fertilizers with biomass management.¹⁷ Moreover, several of the climate mitigation strategies for the agricultural sector, named by the 5th IPPC Report on climate change,¹⁸ are included in the EU regulations on organic farming,¹⁹ such as crop rotation, reduction of soil erosion, recycling of biogenic materials and limited use of fertilizer. For the named reasons, Sustainalytics considers the financing of EU organic agriculture as impactful and contributing to the sector's overall carbon footprint reduction.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This green bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Energy Energy Efficiency Green Buildings	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix 7.3 By 2030, double the global rate of improvement in energy efficiency.
Clean Transportation	11. Make cities and human settlements inclusive, safe, resilient and sustainable	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 vulnerable situations, women, children, persons with disabilities and older persons.

¹⁴ Water and Climate Change Adaptation © OECD 2013, <http://www.oecd.org/env/resources/belgium.pdf>

¹⁵ Water and Climate Change Adaptation © OECD 2013, <http://www.oecd.org/env/resources/belgium.pdf>

¹⁶ EEA (2017): 'National emissions reported to the UNFCCC and to the EU Greenhouse Gas Monitoring Mechanism'.

<http://www.eea.europa.eu/dataand-maps/data/national-emissions-reported-to-the-unfccc-and-to-the-eu-greenhouse-gas-monitoring-mechanism-13>.

¹⁷ FAO 2011, Organic Agriculture and Climate Change Mitigation, A Report of The Round Table on Organic Agriculture and Climate Change: http://www.fao.org/fileadmin/templates/organicag/pdf/11_12_2_RTOACC_23_webfiles.pdf

¹⁸ Smith P., M. Bustamante, H. Ahammad, H. Clark, H. Dong, E. A. Elsiddig, H. Haberl, R. Harper, J. House, M. Jafari, O. Masera, C. Mbow, N. H. Ravindranath, C. W. Rice, C. Robledo Abad, A. Romanovskaya, F. Sperling, and F. Tubiello, 2014: Agriculture, Forestry and Other Land Use (AFOLU). In: Climate Change 2014: Mitigation of Climate Change. Contribution of Working Group III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA. Available online https://www.ipcc.ch/pdf/assessment-report/ar5/wg3/ipcc_wg3_ar5_chapter11.pdf

¹⁹ EU Council Regulation (EC) No 834/2007 of 28 June 2007 on organic production and labelling of organic products and repealing Regulation (EEC) No 2092/91: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32007R0834&from=EN>; EU Commission Regulation (EC) No 889/2008: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32008R0889&from=EN>

Pollution Prevention & Control Water Management	6. Clean Water and Sanitation 12. Responsible Consumption and Production 13. Climate Action	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally. 12.2 By 2030, achieve the sustainable management and efficient use of natural resources. 13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries
Sustainable Land Use	15. Life on Land	15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements.

Conclusion

KBC's green bond is intended to foster the transition to a low-carbon economy and the development of a sustainable financial system through the financing and refinancing of loans related to Renewable Energy, Energy Efficiency, Clean Transportation, Green Buildings, Pollution Prevention & Control, Water Management and Sustainable Land Use in Belgium and KBC's core markets (Belgium, Bulgaria, the Czech Republic, Hungary, Ireland and Slovakia). These categories are recognized by the GBP as impactful and include recognized third-party certification for commercial green buildings, such as LEED, BREEAM and HQE. The compliance of selected projects with the eligibility criteria will be subject to external review by an independent party, which is aligned with market best practice.

Given that Belgium is the eighth largest emitter of GHG emissions per capita and the second largest waste producer in the EU, Sustainalytics believes that the bond will help bridge the private green funding gap in Belgium to reduce GHG emissions and waste generation. In addition, Sustainalytics considers the financing of EU organic farming and FSC- and PEFC-certified forestry to contribute to the reduction of the sector's carbon footprint.

Based on the above, Sustainalytics considers KBC Green Bond Framework to be robust, credible and transparent.

Appendices

Appendix 1: Sustainalytics' Analysis of FSC and Cerflor (PEFC) Certifications

FSC and PEFC are both based on rigorous standards and on a multi-stakeholder structure. Both organizations are in line with international norms such as the International Labour Organization (ILO) conventions, the Convention on Biological Diversity (CBD), and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). In addition to compliance with laws in the country of certification, both schemes have a set of minimum requirements that companies are required to meet to obtain and maintain certifications. These requirements include compliance with standards around sustainable management of forests, management of environmental impact of operations, preservation of biodiversity, management of socio-economic and community relations, and sourcing of sustainable wood (chain of custody). Furthermore, both FSC and PEFC require external annual audits to ensure compliance, and achieve and maintain certification. Despite these similarities, PEFC has faced certain criticisms from civil society actors. These are highlighted below:

- i. **Type of organization:** Since the FSC is an international labelling and certification system, it sets its own global standards. The PEFC, in contrast, is not a standard setter, but a mutual recognition scheme. The PEFC sets sustainability benchmarks according to international norms, and endorses national certification schemes that comply with these benchmarks. A common criticism of this model is that it allows for more flexibility in the interpretation of international PEFC benchmarks as per regional, cultural, and socio-economic context, and results in the endorsement of less rigorous national certification schemes. However, the process for being endorsed by the PEFC is thorough; any national certification system seeking to obtain PEFC endorsement must submit to a comprehensive assessment process, including independent evaluation and public consultation. This evaluation of compliance with international PEFC benchmarks is carried out by independent, accredited certification organizations.
- ii. **Indigenous People's Rights:** FSC and PEFC both identify indigenous rights as an important standard in forest management. Both certification schemes require that forest management activities consider and do not infringe on indigenous people's rights, and the activities are carried out using frameworks ensuring their free and informed consent. A criticism of PEFC is that it requires only engagement with indigenous people in forest management decisions, while the FSC provides performance-oriented targets, and requires forest managers operating on indigenous lands to obtain indigenous people's consent through binding agreements.
- iii. **Sourcing wood from non-certified sources:** Both FSC and the PEFC have established standards around sourcing wood from non-certified and controversial sources. FSC's standards direct forest managers to avoid wood harvested in violation of traditional and civil rights. A criticism of the comparable PEFC standard is that it limits identification of controversially sourced wood to situations where the local legislation is violated. However, PEFC standards explicitly reference the violation of local, national, and international legislation with regards to worker's and indigenous people's rights as being a controversial source of wood.

Appendix 2: KBC methodology for green residential housing

The KBC Green Bond Framework includes the following eligibility criteria for residential housing.

"Real estate loans for new constructed energy efficient residential buildings in the Flemish Region that comply with the "Energieprestatie en Binnenklimaat" (EPB) requirements included in the building code of the Flemish Region as of 2014 or later (E-level ≤ 60) and for which the first drawdown has occurred after January 1, 2016."

Sustainalytics finds this criterion to be aligned with the GBP standards for low carbon residential buildings, i.e. including the top 15% energy efficient housings in the local market. In the following we outline the calculations and proxies (construction year and EPB requirements) used by KBC to support this alignment with GBP standards.

1. Energy Performance Certificate (EPC) in Flanders

The EPC is a commonly used as proxy to determine the top 15% energy efficient homes in a market. However, the Flemish EPC database contains just over one million registered EPC labels for existing residential dwellings. The EPC labels are obtained under the requirements to apply for an EPC label when selling or renting out a residential dwelling. As such a label is not required within 10 years after finalizing construction of a dwelling (validity of the "EPC Bouw"), this database does not include the buildings which are financed by the eligible mortgage loans. Also, the data does not cover any potential additional energy efficiency upgrades to buildings after the label has been granted. 3,44% of the buildings included in the EPC database have obtained an EPC-label of 'A', which indicates a maximum energy performance of 100 kWh/m²/year²⁰. For the purpose of determining the top 15% energy efficient residential building, this database is viewed as representative for all residential dwellings as this covers around 45% of the total residential building stock of 2.244.288 buildings²¹.

2. Correlation between energy efficiency performance and building year

In 2015, the Flemish Energy Agency (VEA) performed a detailed analysis of the energy performance of residential dwellings in the Flemish Region per construction period, based on available EPC certificate data. The analysis concluded that there is a strong correlation between building period and energy performance²². Mainly due to increasingly stringent energy requirements in the Flemish Building Code, such as the dwelling insulation requirements (1993) and "Energieprestatie en Binnenklimaat" requirements (2006), the energy performance of residential dwellings has significantly improved over time (see Figure 1 below).

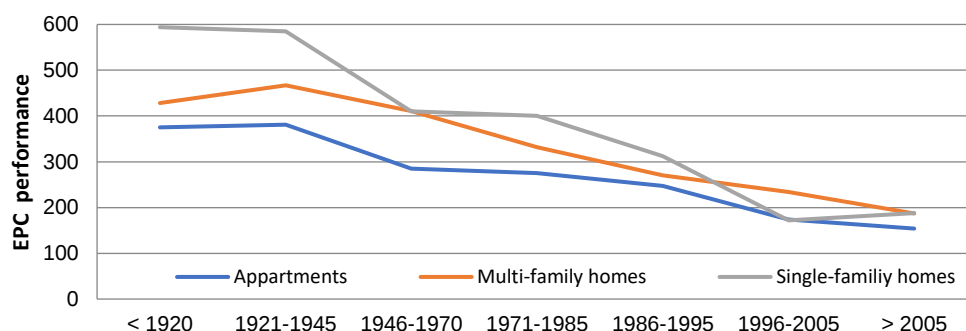


Figure 1: Average Energy Performance (in kWh/m²/year) per construction period

²⁰ Source: Vlaams Energie Agentschap

²¹ Statbel statistics "Gebouwenpark België en gewesten" (March, 2018): <https://statbel.fgov.be/nl/themas/bouwen-wonen/gebouwenpark#figures>

²² Rapportage Energie Renovatiepact, Vlaams Energie Agentschap (June, 2015)

http://www.energiesparen.be/sites/default/files/atoms/files/Eindverslag_eerstefaseRenovatiepact_290615.pdf

3. Correlation of energy efficiency performance and "Energieprestatie en Binnenklimaat" requirements

As of January 2006, the permitting requirements of the Building Code of the Flemish Region require that all new and significantly renovated residential buildings comply with the energy & indoor climate requirements "Energieprestatie en Binnenklimaat" (EPB). The EPB requirements regarding the energy performance of residential buildings are regularly adjusted on a trajectory towards Nearly Zero Energy Buildings in 2021, in line with the EU Energy Performance of Buildings Directive.

The energy performance requirement within the EPB started at an E-peil ("E-level") of 100 in 2006. The E-level is the annual primary energy consumption divided by a reference consumption²³. The E-level was subsequently lowered to 80 (2010), 70 (2012), 60 (2014), 50 (2016) and 40 (as of 1-1-2018). The requirements ultimately lead to Nearly Zero Energy Buildings, with E30 being the norm in 2021. Figure 2 shows that there is a correlation between the E-level and the expected energy usage of the building.

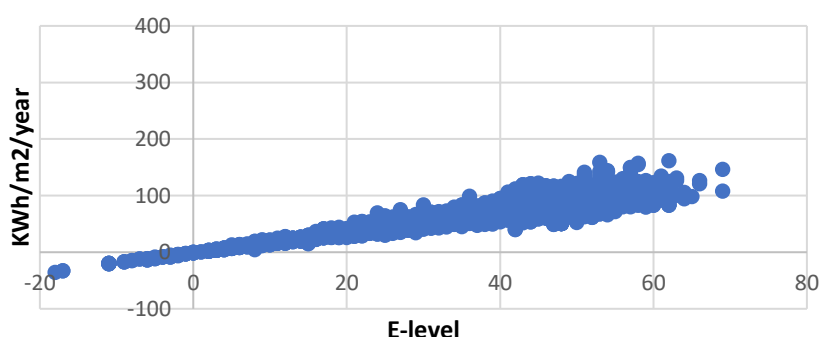


Figure 2: Relationship E-level and energy use in KWh/m²/year (Source: Vlaams Energie Agentschap, March 2018). The depicted variation derives from differences in building size.

Furthermore, new constructed apartments and single-family homes (the largest categories of residential buildings in Flanders) generally have an energy-performance which exceeds the regulatory EPB requirements (see Figure 3). Examining the regulatory norm for buildings financed with eligible mortgages (E60, 2014), apartments (on average E47) and single-family homes (on average E40) built according to this norm reached significant lower E-levels.

To ensure compliance with the 2014 EPB requirements (E-level 60), KBC chose a two-year time lag between the implementation of the EPB requirements and the first-drawdown of the mortgage, i.e. eligible mortgage loans are for new constructed residential buildings in the Flemish Region of which the first drawdown has occurred after January 1, 2016.

Year	Average actual E-level apartments	Average actual E-level single-family homes	Regulatory E-level
2006	90	86	100
2007	83	81	100
2008	81	77	100
2009	78	73	100
2010	69	65	80
2011	69	66	80
2012	62	57	70
2013	60	55	70
2014	47	40	60
2015	46	39	60
2016	(no data)	30	50

Figure 3: Energy performance new residential buildings (Source: energisparen.be, February 2018)

²³Flemish Energy Agency & Environment, Nature and Energy Department: Implementation of the EPBD in Belgium. Status in December 2014. Flemish Region: <https://www.epbd-ca.eu/outcomes/2011-2015/CA3-2016-National-BELGIUM-Flemish-web.pdf>

4. Conclusion – eligible assets part of the top 15% of the Flemish residential building stock

The energy performance of residential buildings in the Flemish region has improved significantly over time. As such, the most recently build residential dwellings which comply with the EPB requirements outperform most of earlier constructed residential buildings in terms of energy performance. Furthermore, the composition of the residential building stock per construction period indicates that:

- a) Residential buildings constructed after 2014 (financed by the eligible mortgage loans) comply with the EPB E-level requirement of 60 or lower, which in practice results in an energy usage which is well below 100 kWh/m²/year. These buildings account for less than 3,26% of the residential building stock in the Flemish region²⁴
- b) Assuming that the EPC database is representative for the total residential building stock in Flanders, an additional 3,44% of the residential building stock meets the requirements for an EPC-label of 'A' which evidences an energy usage ≤ 100 kWh/m²/year.

This leads to the conclusion that the residential buildings constructed after 2014 and the existing residential buildings with an EPC-label of 'A' together, which can be regarded as the top performing buildings in terms of energy performance, account for less than 6,7% of the Flemish residential building stock. Such, the eligible mortgage loans which finance residential dwellings which comply with the Flemish Building Code as of 2014 fall well within the top 15% of residential dwellings in terms of energy performance.

²⁴ Statbel statistics "Gebouwenpark België en gewesten" (March 2018): <https://statbel.fgov.be/nl/themas/bouwen-wonen/gebouwenpark#figures>

Appendix 3: Overview and Comparison of Real Estate Certification Schemes

	LEED	BREEAM	HQE
Background	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings.	BREEAM (Building Research Establishment Environmental Assessment Method) was first published by the Building Research Establishment (BRE) in 1990. Based in the UK. Used for new, refurbished and extension of existing buildings.	The Haute Qualité Environnementale or HQE (High Quality Environmental standard) is a standard for green building in France, based on the principles of sustainable development first set out at the 1992 Earth Summit. The standard was launched in 2005 and is controlled by HQE and certificate is issued by Cerway/ Certivea/ Cerqual.
Certification levels	Certified Silver Gold Platinum	Pass Good Very Good Excellent Outstanding	Pass Good Very good Excellent Exceptional
Areas of Assessment: Environmental Project Management	Integrative process, which requires, from the beginning of the design process, the identification and creation of synergies between the various project stakeholders regarding the construction choices and the technical systems.	Management (Man) addresses various aspects: project management, deployment, minimal environmental disturbance worksite and stakeholder engagement.	Global management system
Areas of Assessment: Environmental Performance of the Building	• Energy and atmosphere • Sustainable Sites • Location and Transportation • Materials and resources • Water efficiency • Indoor environmental quality • Innovation in Design • Regional Priority	• Energy • Land Use and Ecology • Pollution • Transport • Materials • Water • Waste • Health and Wellbeing • Innovation	• Energy • Environment (Site, Components, Worksite, Water, Waste, Maintenance) • Comfort (Hydrothermal, Acoustic, Visual, Olfactory) • Health (Spaces quality, Air Quality, Water Quality) • Principles of Equivalence
Requirements	Prerequisites (independent of level of certification) + Credits with associated points These points are then added together to obtain	Prerequisites depending on the levels of certification + Credits with associated points This number of points is then weighted by item ²⁵	Prerequisites (independent of level of certification) + Points-based performance level: Performing and High Performing

²⁵ BREEAM weighting: Management 12%, Health and wellbeing 15%, Energy 19%, Transport 8%, Water 6%, Materials 12.5%, Waste 7.5%, Land Use and ecology 10%, Pollution 10% and Innovation 10%. One point scored in the Energy item is therefore worth twice as much in the overall score as one point scored in the Pollution item

	the LEED level of certification There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).	and gives a BREEAM level of certification, which is based on the overall score obtained (expressed as a percentage). Majority of BREEAM issues are flexible, meaning that the client can choose which to comply with to build their BREEAM performance score. BREEAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.	The Prerequisite level is obtained when all the minimum requirements for a target are met, while the Performing and High Performing levels are obtained based on a percentage of points given per target, allowing for flexibility. Based on the total number of stars obtained per area, an overall HQE level is then given. Environmental certificates are assigned at all stages of the building life cycle, and on-site audits are required.
Performance display			
Accreditation	LEED AP BD+C LEED AP O+M	BREEAM International Assessor BREEAM AP BREEAM In Use Assessor	HQE Construction Certification Referent HQE Operations Certification Advisor
Qualitative considerations	Widely recognised internationally, and strong assurance of overall quality.	Used in more than 70 countries: Good adaptation to the local normative context. Predominant environmental focus. BREEAM certification is less strict (less minimum thresholds) than HQE and LEED certifications.	HQE certification has the most number of targets concerning individuals. The "Comfort" and "Health" related themes are the most developed in this scheme. The HQE scheme recognises European and international standards (in particular the ISO and ASHRAE standards).

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

Section 1. Basic Information

Issuer name:	KBC
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: <i>[specify as appropriate]</i>	KBC Green Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	April 25, 2018
Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i>	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs:

- | | |
|--|--|
| ☒ Use of Proceeds | ☒ Process for Project Evaluation and Selection |
| ☒ Management of Proceeds | ☒ Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| ☒ Consultancy (incl. 2 nd opinion) | ☐ Certification |
| ☐ Verification | ☐ Rating |
| ☐ Other <i>(please specify)</i> : | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Executive Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The net proceeds of each KBC green bond will be used to finance and refinance, in whole or in part, existing and future projects under eligibility criteria in seven areas:

1. Renewable Energy
2. Energy Efficiency
3. Clean Transportation
4. Green Buildings
5. Pollution Prevention & Control
6. Water Management
7. Sustainable Land Use

All KBC's use of proceeds categories are recognized as impactful by the GBP. Where relevant, some of the eligibility criteria refer to credible third-party standards, such as LEED, BREEAM and HQE for green commercial buildings and Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC). While KBC does not indicate a lookback period in the KBC Green Bond Framework, KBC committed to disclose the lookback period for refinancing to investors per issuance.

Use of proceeds categories as per GBP:

- | | |
|--|---|
| ☒ Renewable energy | ☒ Energy efficiency |
| ☒ Pollution prevention and control | ☒ Environmentally sustainable management of living natural resources and land use |
| ☐ Terrestrial and aquatic biodiversity conservation | ☒ Clean transportation |
| ☒ Sustainable water and wastewater management | ☐ Climate change adaptation |
| ☐ Eco-efficient and/or circular economy adapted products, production technologies and processes | ☒ Green buildings |
| ☐ Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | ☐ Other (<i>please specify</i>): |

If applicable please specify the environmental taxonomy, if other than GBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (*if applicable*):

KBC has a dedicated green bond committee for project evaluation and selection comprised of members from the KBC Group Treasury and Corporate Sustainability at general manager level. Eligible Assets are evaluated against KBC's Policies and the standards of the KBC Group Sustainability Framework, which excludes investments in certain controversial activities. KBC's business unit submit potential projects to the green bond committee, which verifies compliance of the projects with the eligible use of proceeds categories and KBC's policies. The project projects' eligibility will also be reviewed by an independent auditor, which is aligned with market best practice.

Evaluation and selection

- | | |
|--|---|
| ☒ Credentials on the issuer's environmental sustainability objectives | ☒ Documented process to determine that projects fit within defined categories |
| ☒ Defined and transparent criteria for projects eligible for Green Bond proceeds | ☒ Documented process to identify and manage potential ESG risks associated with the project |
| ☒ Summary criteria for project evaluation and selection publicly available | ☐ Other (<i>please specify</i>): |

Information on Responsibilities and Accountability

- | | |
|--|---|
| ☒ Evaluation / Selection criteria subject to external advice or verification | ☒ In-house assessment |
| ☐ Other (<i>please specify</i>): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

KBC labels and tracks the allocated amounts, which is aligned with market standards. Unallocated proceeds will be invested in money market products, cash and/or cash equivalent.

Tracking of proceeds:

- ☒ Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- ☒ Disclosure of intended types of temporary investment instruments for unallocated proceeds
- ☐ Other (*please specify*):

Additional disclosure:

- | | |
|---|---|
| ☐ Allocations to future investments only | ☒ Allocations to both existing and future investments |
| ☐ Allocation to individual disbursements | ☐ Allocation to a portfolio of disbursements |
| ☒ Disclosure of portfolio balance of unallocated proceeds | ☐ Other (<i>please specify</i>): |

4. REPORTING

Overall comment on section (*if applicable*):

KBC intends to report on an annual basis the amount of allocated and unallocated proceeds, which is aligned with market practices. KBC also committed to reporting on impact indicators on an annual basis for all eligible categories subject to the availability of information and baseline data and based on methodologies, which is aligned with market practices. Sustainalytics recommends that KBC develops meaningful KPIs for all eligibility categories.

Use of proceeds reporting:

- | | |
|--|--|
| ☐ Project-by-project | ☒ On a project portfolio basis |
| ☐ Linkage to individual bond(s) | ☐ Other (please specify): |

Information reported:

- | | |
|---|---|
| ☒ Allocated amounts | ☒ Green Bond financed share of total investment |
| ☐ Other (please specify): | |

Frequency:

- | | |
|--|--------------------------------------|
| ☒ Annual | ☐ Semi-annual |
| ☐ Other (please specify): | |

Impact reporting:

- | | |
|--|--|
| ☐ Project-by-project | ☐ On a project portfolio basis |
| ☐ Linkage to individual bond(s) | ☐ Other (please specify): eligible category level |

Frequency:

- | | |
|--|--------------------------------------|
| ☒ Annual | ☐ Semi-annual |
| ☐ Other (please specify): | |

Information reported (expected or ex-post):

- | | |
|---|---|
| ☒ GHG Emissions / Savings | ☒ Energy Savings |
| ☒ Decrease in water use | ☐ Other ESG indicators (please specify): |

Means of Disclosure

- | | |
|---|---|
| ☐ Information published in financial report | ☐ Information published in sustainability report |
| ☐ Information published in ad hoc documents | ☐ Other (please specify): |
| ☐ Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): | |

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|--|
| ☐ Consultancy (incl. 2 nd opinion) | ☐ Certification |
| ☐ Verification / Audit | ☐ Rating |
| ☐ Other (<i>please specify</i>): | |

Review provider(s):

Date of publication:

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

- i. Consultant Review: An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental sustainability or other aspects of the issuance of a Green Bond, such as the establishment/review of an issuer's Green Bond framework. "Second Party Opinions" may fall into this category.
- ii. Verification: An issuer can have its Green Bond, associated Green Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria.
- iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against an external green assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
- iv. Rating: An issuer can have its Green Bond or associated Green Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Green Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Green Bond frameworks / programmes.

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For more information, visit www.sustainalytics.com

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