Flanders
State of the Art

Sustainability Bond Reporting

EMTN – September 2023

Team Financial Operations

DEPARTMENT OF
**FINANCE &
BUDGET**

Financeflanders.be

Inhoud

INTRODUCTION

In September 2023, the Flemish Community issued its sixth sustainability bond. The aim of the bond is to finance sustainable green and / or social investments:

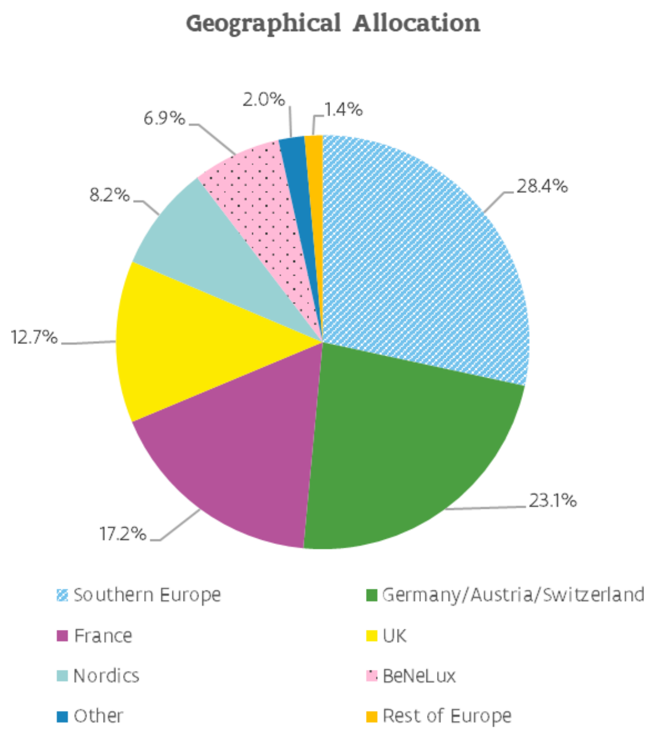
- that are in line with the sustainable development objectives previously published by Flanders in the context of "Vision 2050" and "Vizier 2030"
- that follow the requirements defined in the sustainability bond framework

The proceeds will be used to increase the energy efficiency of buildings, finance initiatives in the circular economy, promote affordable housing and access to education.

Additional information about Flanders sustainability bond and framework can be found on: http://financeflanders.be/sustainability

Issuances' characteristics

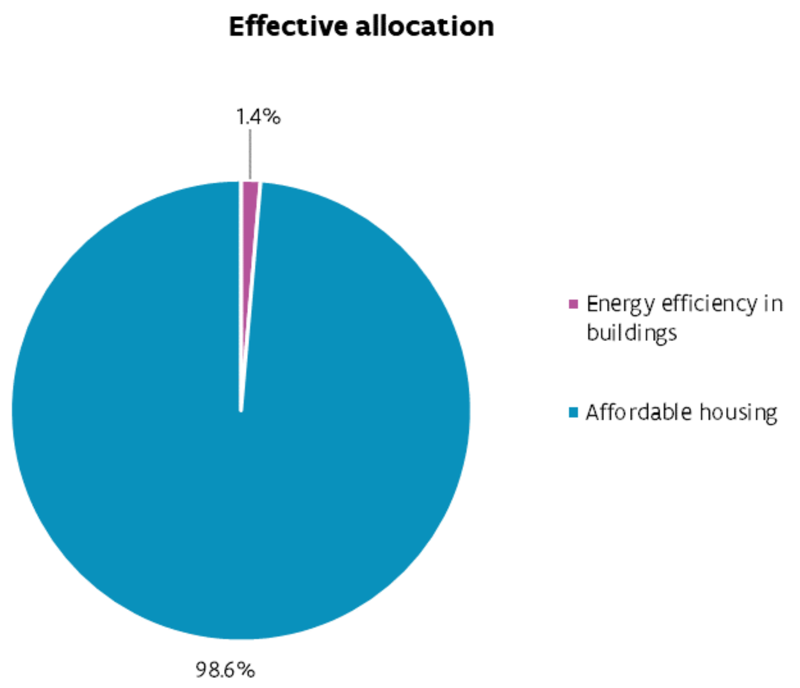
Sustainability BM September 2023	
Issue date	26 September 2023
Amount	EUR 1.5 billion
Maturity	26 September 2042
Rating	AA (Fitch)
Coupon	4.000%
Reoffer Yield	4.032%
Second Party Opinion	Sustainalytics
# Investors	207
# Countries	23



SUMMARY

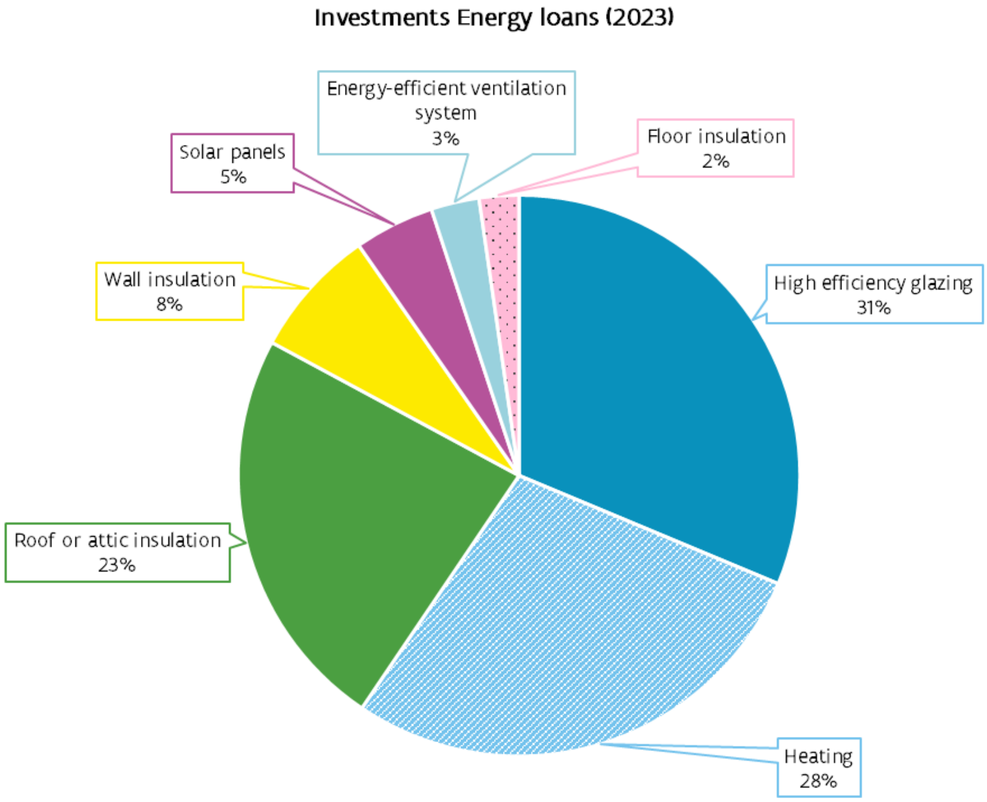
Allocation

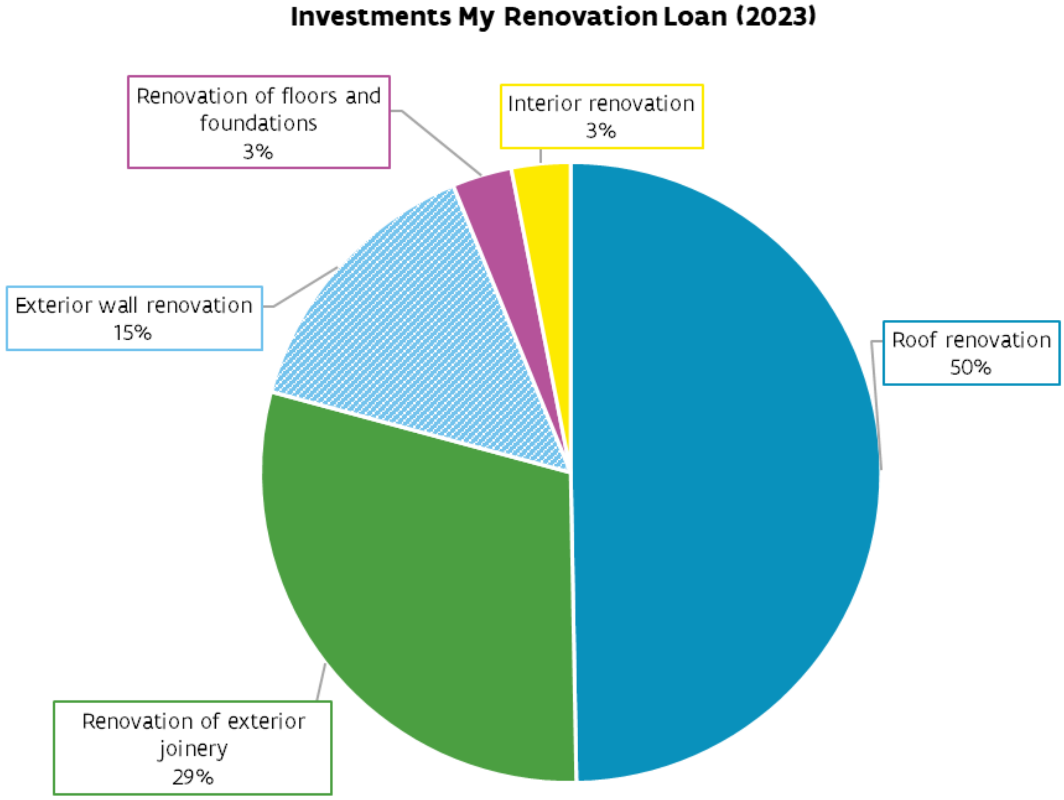
The total amount of the proceeds has been allocated as follows:



Key facts and figures for each category

Energy efficiency in buildings





Affordable housing

VMSW[1]	Green investments	Social investments with known E-level	No known E-level
Owner-occupied homes	682	148	78
Rental properties	2,609	1,661	13,103
Average E-level[2]	< 60	69.47	-

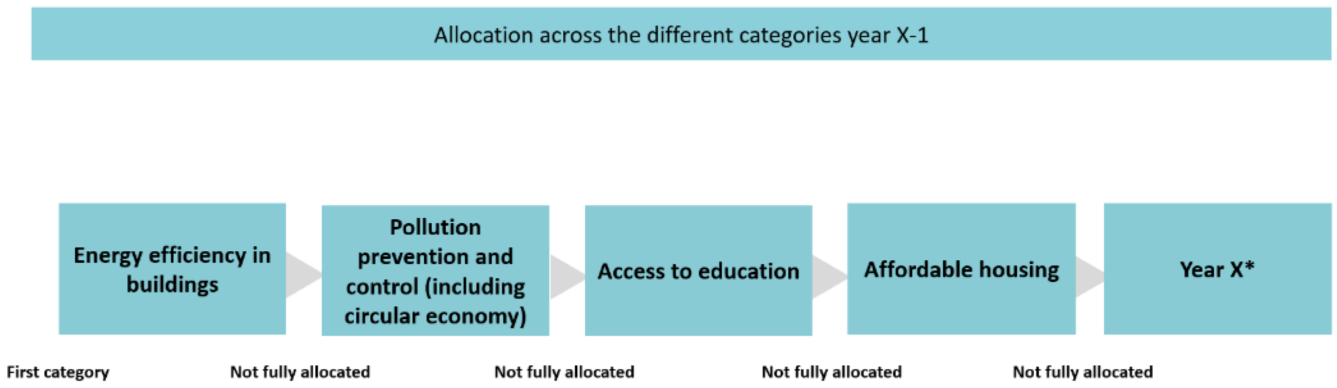
VWF[3] investments			
Number of family members			
1	843	7	140
2	643	8	50
3	851	9	23
4	944	10	7
5	695	11	4
6	327	12	3

[1] VMSW = Vlaamse Maatschappij voor Sociaal Wonen (Flemish Social Housing Association)
[2] The E-level is a score that indicates how energy-efficient a building is. The lower the E-level, the more energy-efficient the building is.
[3] VWF = Vlaams Woningfonds (Flemish Housing Fund)

GENERAL

Selection methodology

The proceeds of the sustainability bond are allocated **primarily to Flanders' expenditures of the year before issuance** (X-1), followed by Flanders' expenditures of the issuance year (X).



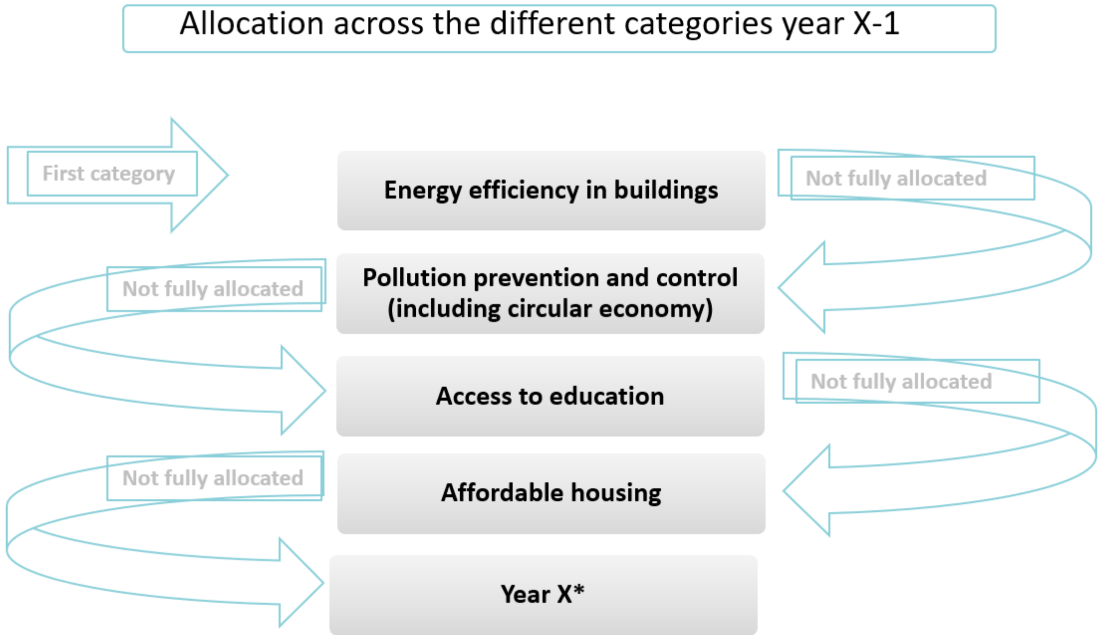
The eligible expenditures are selected depending on **Flanders' budgetary situation**:

- If the ESA (European System of Accounts) budget is balanced in the year X-1, ESA revenues are sufficient to finance ESA expenditures. Consequently, only ESA expenditures excluded from the financial balance related to the consolidated public debt are eligible, as projects cannot be financed twice.
- If the ESA budget is non-balanced in year X-1, Flanders received insufficient revenues to finance the expenditures. In that case, expenditures are partially financed with debt. Consequently, the expenditures included in the financial balance related to the consolidated public debt are also eligible.

The expenditures excluded from the financial balance are **not considered into Flanders' ESA result** according to the ESA 2010 rules. Those eligible expenditures concern for example expenditures for the financing of public agencies (e.g. social housing), PPP projects (e.g. DBFM Schools of Tomorrow) and other expenditures for lending and holdings (e.g. energy loans). These expenditures are also **voted by the Parliament**.

A dedicated **sustainability bond committee** selects the eligible expenditures and approves the methodology used for the allocation.

Priority is given to the **greenest projects**. Consequently, the different categories in year X-1 are ranked as follows:



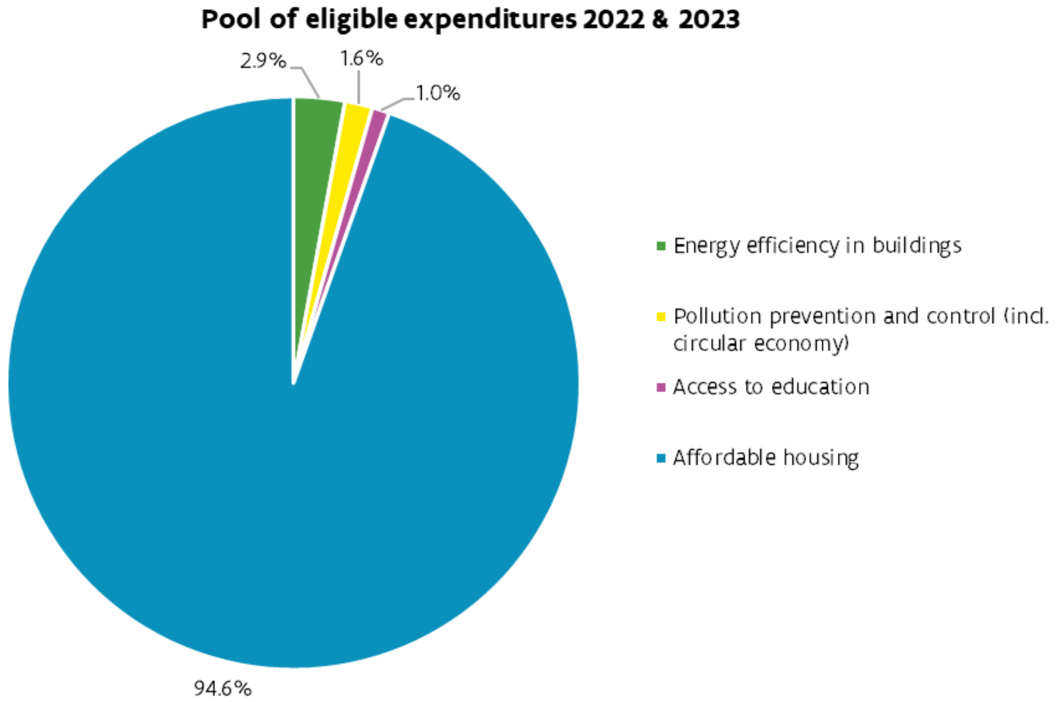
In year X, the same methodology is used as in year X-1 until proceeds are fully allocated.

Flanders aims to **allocate** the proceeds of the bond **as optimally as possible**. Partially funding a project or transferring small residual amounts to the next year is undesirable. Therefore, the final projects can be chosen based on their funding amount versus the amount left to allocate.

Allocation

Pool of eligible expenditures

In EUR m	2022	2023	TOTAL
Energy efficiency in buildings	0.00	111.44	111.44
Pollution prevention and control (incl. circular economy)	0.00	60.01	60.01
Access to education	0.00	38.00	38.00
Affordable housing	1,479.69	2,173.12	3,652.81
TOTAL	1,479.69	2,382.56	3,862.26



Due to Flanders' budget deficit in 2022 and 2023, both ESA expenditures excluded from and included in the financial balance were deemed eligible.

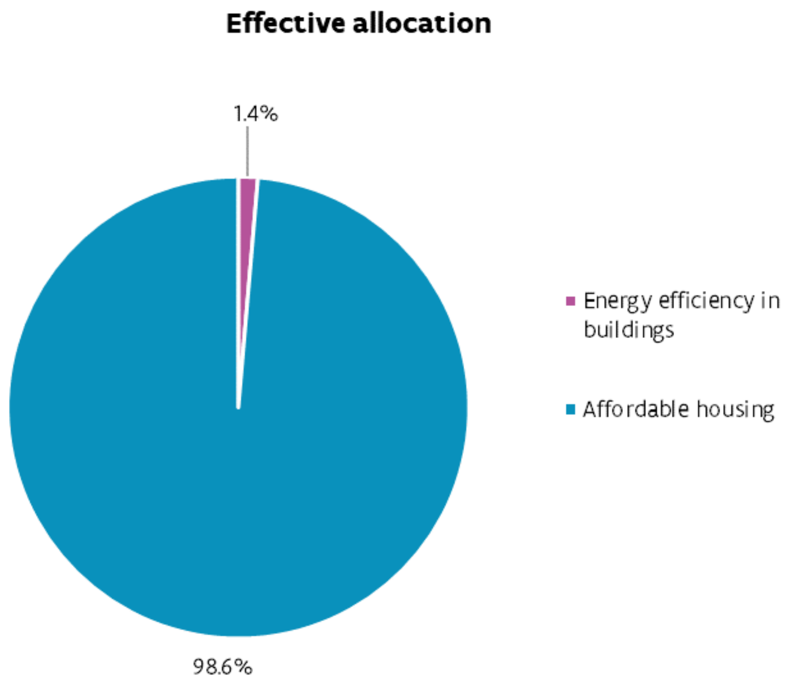
Part of the 2022 eligible expenditures had already been allocated to the fifth sustainability bond of October 2022. As a result, there is 1,479.69 million euros of eligible expenditures in 2022.

The total amount of eligible expenditures is 3,862.26 million euros. The largest part of this pool consists of the *Affordable housing* category (94.6%), followed by the category *Energy efficiency in buildings* (2.9%), *Pollution prevention and control (incl. circular economy)* (1.6%) and lastly *Access to education* (1.0%).

Effective allocation

The following effective allocation was approved:

In EUR m	Effective allocation
Energy efficiency in buildings	20.31
Pollution prevention and control (incl. circular economy)	0.00
Access to education	0.00
Affordable housing	1,479.69
TOTAL	1.500,00



ENERGY EFFICIENCY IN BUILDINGS

Selection methodology

Fund : /

Energy loans :

1. Limitation of energy loss
2. Energy-efficient equipment
3. Renewable energy
4. Energy audit

My Renovation Loans :

1. Limitation of energy loss
2. Renewable energy

Flanders excludes fossil fuels financing, with exception of the measures included in the legislation.

No proceeds are currently allocated to the Fund set up to help “emergency buyers”. The first expenditures occurred in 2021. However, the amount in 2023 was negligible. Therefore, it was decided not to include these proceeds.

Regarding the *Energy loans* financing, Flanders gives priority to projects that improve the shell of buildings and contribute to **reducing energy loss**. Examples of such investments are insulation and high-efficiency glazing. Secondly, Flanders looks for projects that provide buildings with **energy-efficient equipment**, such as low-energy heating systems or relighting. Thirdly, Flanders selects projects that increase the use of **renewable energy** in a building, such as solar panels, solar water heater, heat pump, etc. **Energy audits** are ranked last.

My Renovation Loans have replaced the *Energy loans* since 1 September 2022. Firstly, Flanders prioritizes measures that **limit energy losses**, such as insulation. Secondly, Flanders selects projects that increase the use of **renewable energy** in a building, such as solar panels, heat pump, etc.

Effective allocation

20,306,796.41 euros of the proceeds of the sustainability bond issued in September 2023 were allocated to the category *Energy efficiency in buildings*. That equals **1.35%** of the total nominal amount of the sustainability bond.

1,209,467.18 euros were allocated to the *Energy loans* and 19,097,329.23 euros to *My Renovation Loans*.

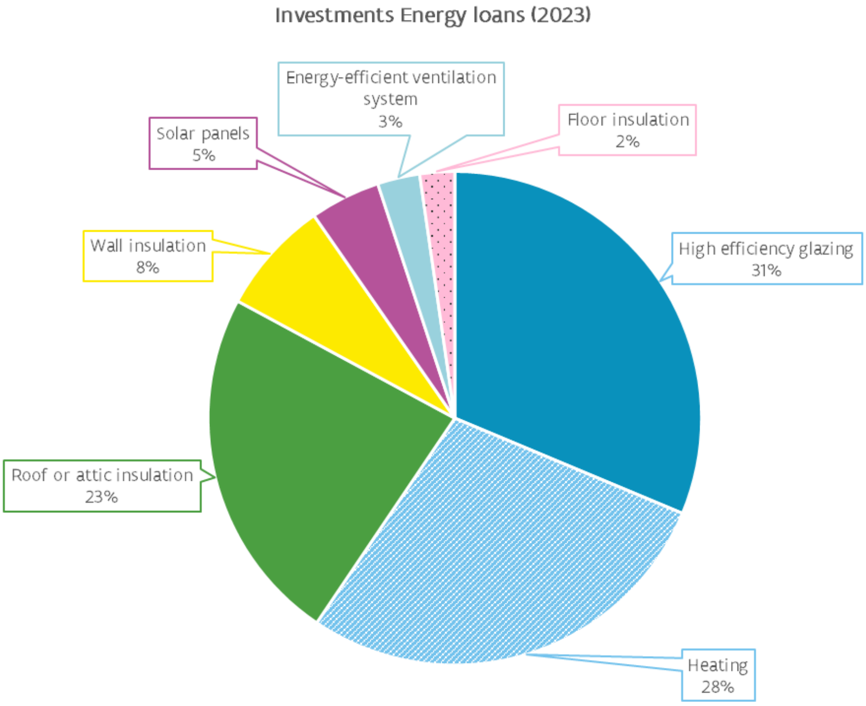
Impact

Energy loans 2023

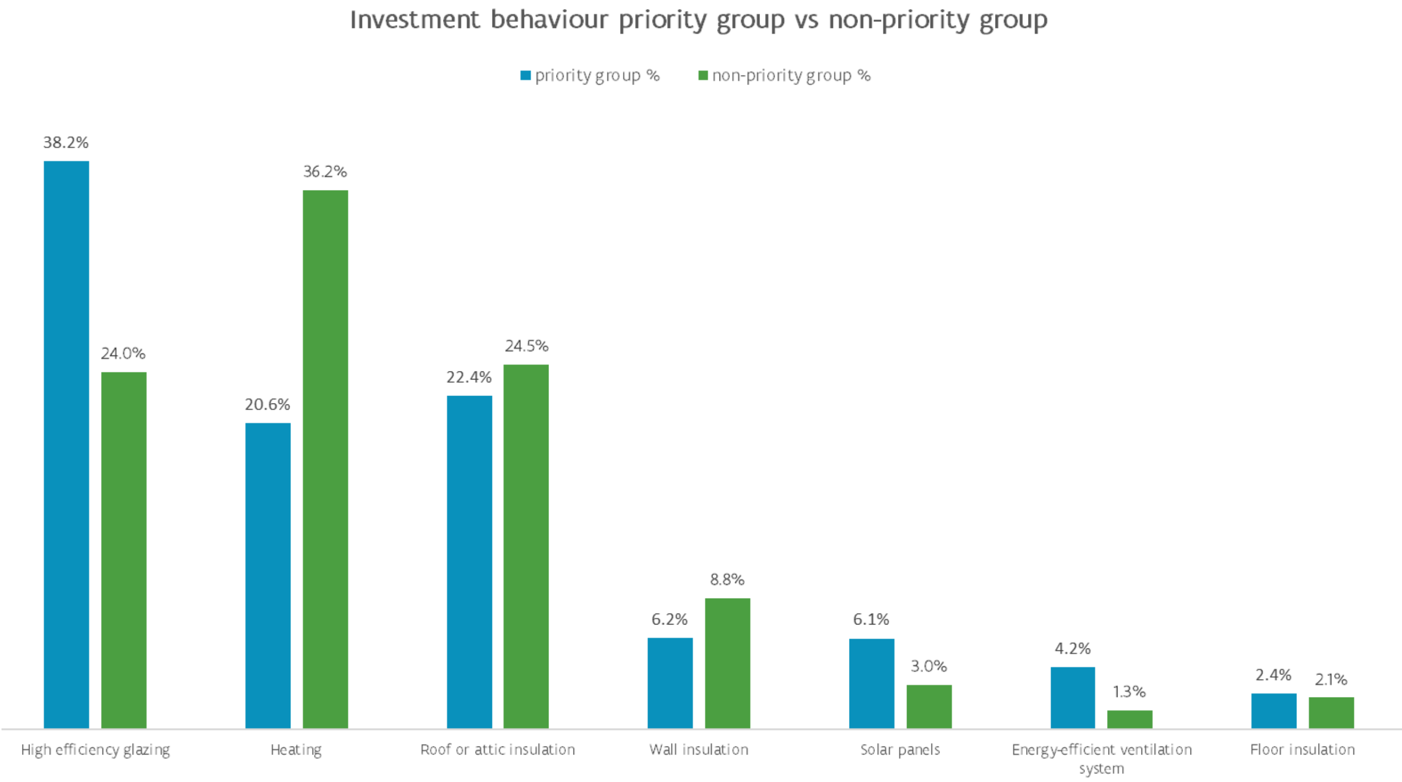
1,209,467.18 euros were allocated to *Energy loans*, of which 624,736.91 euros to the priority group. 63 loans were granted, of which 39 (61.9%) to the priority group.

These energy loans resulted in energy savings of 42,525 euros.

Type of investments	In euros
High efficiency glazing	378,554.78
Heating	340,457.36
Roof or attic insulation	283,286.86
Wall insulation	90,265.17
Solar panels	55,756.92
Energy-efficient ventilation system	33,570.21
Floor insulation	27,575.88
TOTAL	1,209,467.18



The most popular investment is high efficiency glazing (31%), followed by heating (28%) and roof or attic insulation (23%).



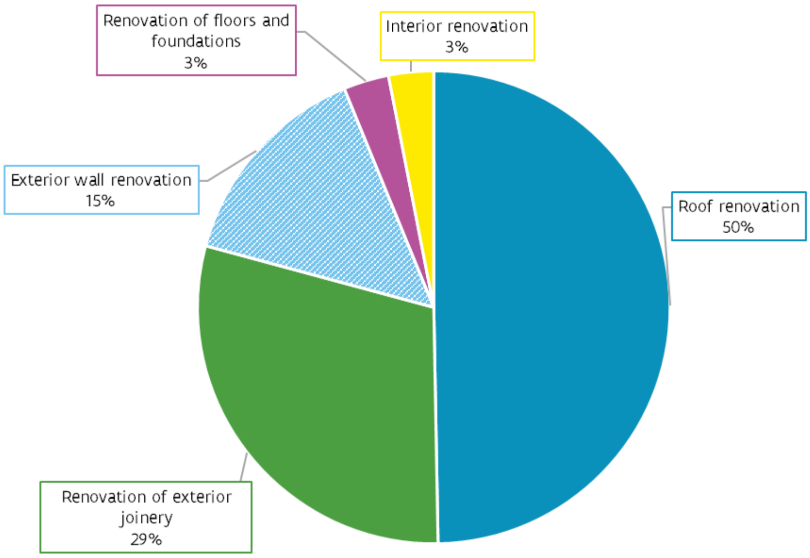
The graph above compares the distribution of investments financed with energy loans between the priority and non-priority group. Both groups invested in the so-called priority interventions. The two most notable differences are high efficiency glazing (38.2% of the investments for the priority group versus 24.0% for the non-priority group) and heating (20.6% versus 36.2%).

My Renovation Loan 2023

The most popular investment financed by the *My Renovation Loan* is roof renovation (50%), followed by renovation of exterior joinery (29%) and exterior wall renovation (15%).

Type of investments	In euros
Roof renovation	9,493,274.78
Renovation of exterior joinery	5,630,883.40
Exterior wall renovation	2,792,175.48
Renovation of floors and foundations	593,533.83
Interior renovation	587,461.74
TOTAL	19,097,329.23

Investments My Renovation Loan (2023)



POLLUTION PREVENTION AND CONTROL (INCL. CIRCULAR ECONOMY)

Selection methodology

Which project are eligible?

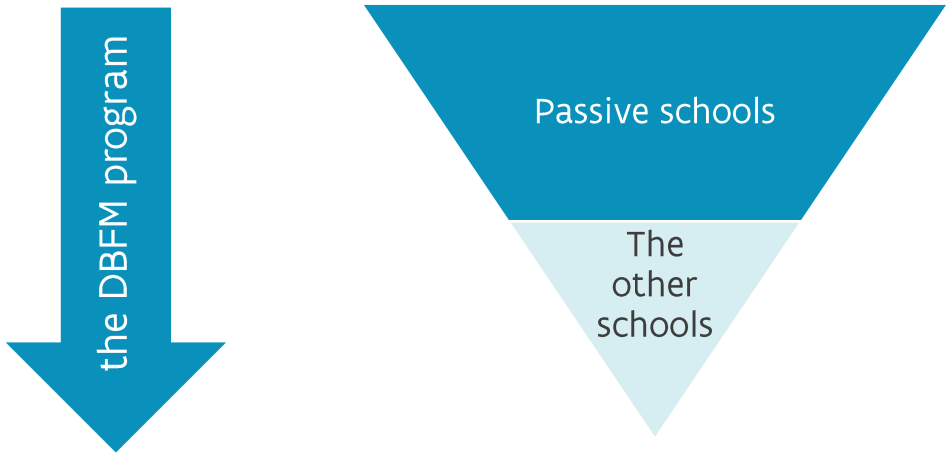
- Flanders Innovation & Entrepreneurship
- Circulair Werk(t)

Effective allocation

None of the proceeds of the sustainability bond issued in September 2023 were allocated to the *Pollution prevention and control* category.

ACCESS TO EDUCATION

Selection methodology



Expenses related to **passive schools** built as part of the DBFM programme Schools of Tomorrow are given priority over expenses related to other schools under the DBFM programme. Within both categories, Flanders selects the schools based on their **E-level**. Schools with the same E-level are ranked chronologically according to their financing date.

Effective allocation

None of the proceeds of the sustainability bond issued In September 2023 were allocated to the category *Access to education*.

AFFORDABLE HOUSING

Selection methodology

How will the projects be ranked?

- The ranking will be based on the E-level of the building
  - New constructions & renovations: projected E-level
  - Purchase: E-level from the energy performance certificate
- For projects consisting of different units, each with an individual E-level, the average E-level will be taken into account.
- Projects of which the buildings all have an E-level equal and below 60 are considered “green”. Projects which have one or more buildings above E-level 60 or an unknown E-level are considered “social”. Priority will be given to these green projects.
- Buildings with the same E-level will be ranked chronologically according to the financing date
- Buildings of which the E-level is unknown will be ranked chronologically according to the financing date at the end of the list.
- No distinction between social rental projects or social ownership projects.
- No distinction between projects from VMSW or projects from VWF

Which projects are eligible?

Social mortgages granted for the following purposes qualify :

- To buy and renovate, improve or adjust a dwelling
- To buy a (social) dwelling
- To renovate, improve or adjust an owner – occupied dwelling
- To preserve a dwelling
- To buy social building land

Financing of social housing projects (building of new buildings or the renovation of existing building)

The projects of VWF are ranked at the end of the list because the E-level is unknown.

Effective allocation

1,479,693,203.58 euros of the proceeds of the sustainability bond issued in September 2023 were allocated to the *Affordable housing* category. That equals **98.65%** of the total nominal amount of the sustainability bond. The selected projects concern projects from both VMSW and VWF.

In EUR	Effective allocation
Green investments VMSW 2022	190,332,930.34
Social investments VMSW with known E-level 2022	44,793,845.28
Social VMSW investments with no known E-level 2022	279,562,255.11
Social VWF investments with no known E-level 2022	965,004,172.85
TOTAL	1,479,693,203.58

Impact

Green investments VMSW (2022)

Green investments VMSW - 2022	
Owner-occupied homes	682
Rental properties	2,609
TOTAL	3,291

Of these green projects, 79.28% are rental properties and 20.72% are owner-occupied homes.

All of these projects had an E-level of less than 60[4].

Social investments VMSW with known E-level (2022)

Social investments VMSW with known E-level - 2022	
Owner-occupied homes	148
Rental properties	1,661
TOTAL	1,809

[4] Since 2015, new VMSW projects have an E-level less than 60. A specific E-level is no longer tracked for some of these projects.

The average E-level of these social projects was 69.47. Of these projects, 91.82% were rental properties and 8.18% were owner-occupied homes.

E-level	Owner-occupied homes	Rental properties
[60 – 65[	33	182
[65 – 70[	45	253
[70 – 75[	70	1,141
[75 – 80[	0	1
[80 – 85[	0	82
[85 – 90[	0	1
[90 – 95[	0	1

Social investments with no known E-level (2022)

These investments include projects from both VMSW and VWF.

Social investments with no known E-level (VMSW) - 2022	
Owner-occupied homes	78
Rental properties	13,103
TOTAL	13,181

Of these VMSW projects with no known E-level, 99.41% were rental properties and 0.59% were owner-occupied homes.

Social investments with no known E-level (VWF) - 2022	
Number of investments	4,530
Number of people who benefited from these investments	15,632
TOTAL	965,004,172.85

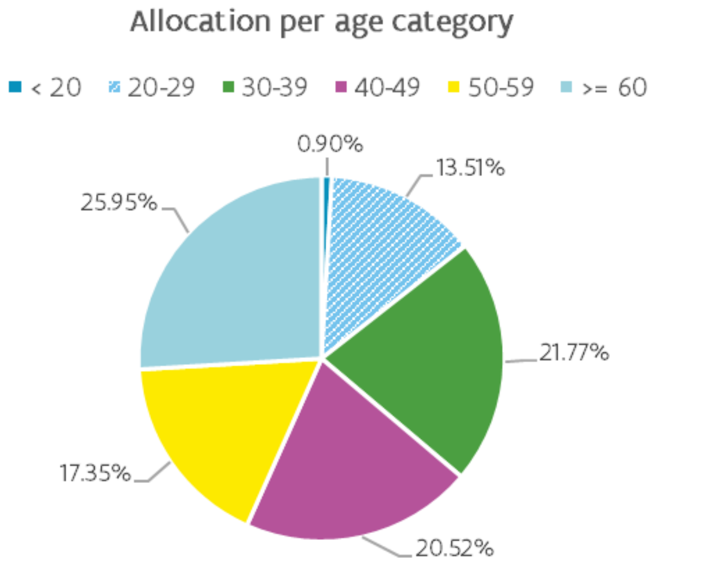
4,530 VWF investments were selected for a total of 965,004,172.85 euros. A total of 15,632 people benefited from these selected VWF investments.

VWF Investments		
	Number of family members	Total amount
1	843	156,449,152.48
2	643	129,882,817.66
3	851	179,688,285.21
4	944	210,718,221.41
5	695	159,258,102.84
6	327	73,813,636.35
7	140	33,577,320.90
8	50	12,006,765.00
9	23	5,943,680.00
10	7	1,557,241.00
11	4	1,155,210.00
12	3	953,740.00

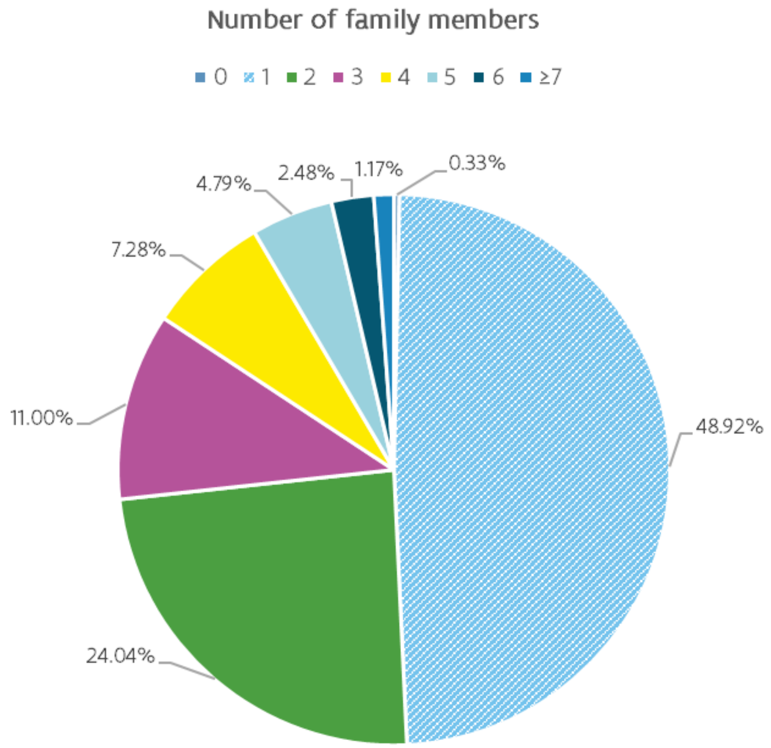
VMSW statistics[5]

The three following graphs and figures give a global overview of the tenants supported by VMSW at the end of 2022. There were 8,181 newly allocated tenants on a total of 145,849 existing tenants.

Allocation per age category[6]	
< 20	74
20 – 29	1,105
30 – 39	1,781
40 – 49	1,679
50 – 59	1,419
≥ 60	2,123

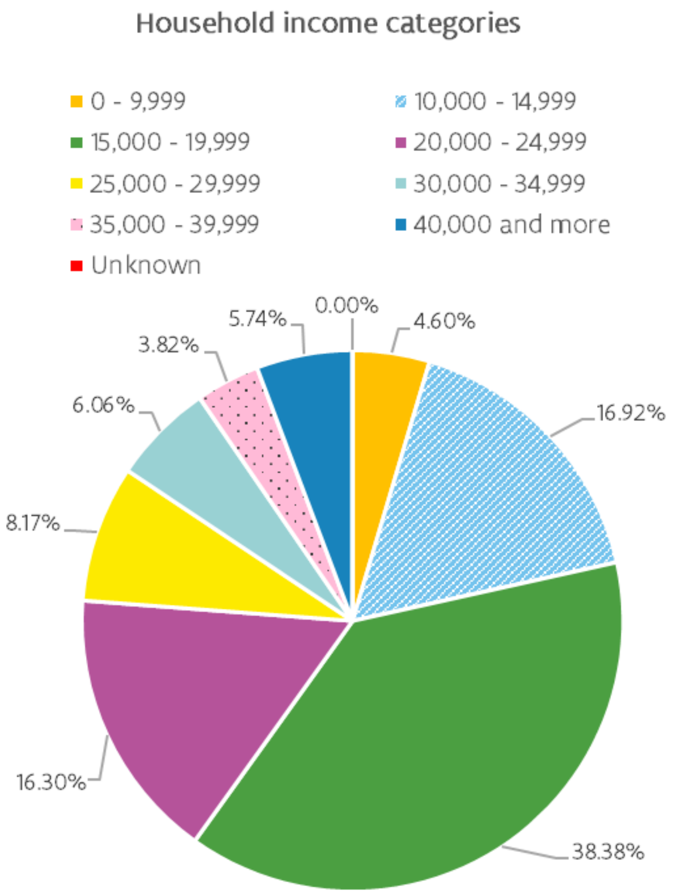


Number of family members (31/12/2022)	
0	475
1	71,350
2	35,057
3	16,047
4	10,614
5	6,987
6	3,611
7	1,205
8	372
9	91
> 9	40



[5] No specific statistics were available for the selected projects.
[6] These figures refer to newly allocated tenants, as opposed to the figures on the number of family members and household income categories, which refer to all existing tenants.

Household income[7] categories in EUR (31/12/2022)	
0	1,160
0.01 – 2,499	857
2,500 – 4,999	861
5,000 – 7,499	1,197
7,500 – 9,999	2,633
10,000 – 12,499	8,907
12,500 – 14,999	15,774
15,000 – 17,499	36,853
17,500 – 19,999	19,125
20,000 – 22,499	14,593
22,500 – 24,999	9,187
25,000 – 27,499	6,626
27,500 – 29,999	5,294
30,000 – 32,499	4,836
32,500 – 34,999	3,998
35,000 – 37,499	3,210
37,500 – 39,999	2,363
40,000 and more	8,369
Unknown	6



[7] Household income = the available household income comprises all income of the household members from economic activity, from property and from social transfers (social security and social assistance benefits).

The following table gives an overview of the renovation of the social patrimony in 2022.

Social patrimonium renovation (cost renovation higher than 15,000 euros per residence)	
Number of residences	
Preliminary draft	640
Award	734
Delivery	2,143
Number of projects	
Preliminary draft	18
Award	36
Delivery	71
Total net cost	
Preliminary draft	€ 80,499,084
Award	€ 111,746,719
Delivery	€ 160,940,639
Total investment (allocations)	
Award	€ 151,960,964
Delivery	€ 207,902,571

The EPB-requirements for housing for the period 2022 are:

- For construction: maximum E30 per housing unit
- For major energetic renovation: maximum E60 per housing unit

VWF statistics – Flemish housing loan[8]

The following graphs and figures give a global overview of the new borrowers supported by VWF at the end of 2022.

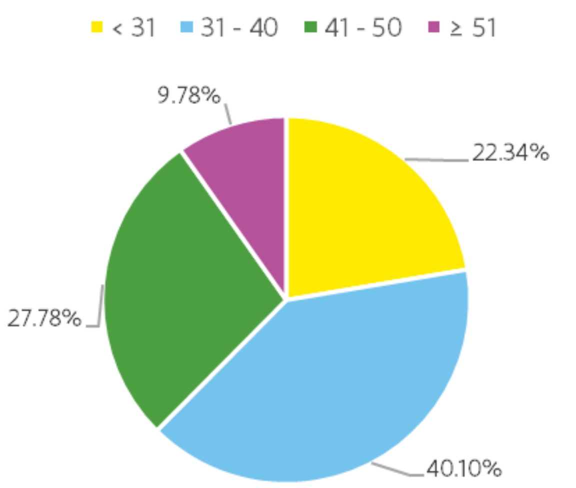
The monthly net family income (including any growth package) of families who acquired their own home in 2022 thanks to the Flemish housing loan is on average 2,818.26 euros.

The average amount of a housing loan provided by VWF was 213,071.53 euros in 2022.

Number of loans	Cost of the house	Sources of funding					
		Flemish housing loan		Own savings		Other contributions[9]	
	Average	Average	%	Average	%	Average	%
4,529	€ 246,660.83	€ 213,071.53	86.38	€23,706.19	9.61	€ 9,883.10	4.01

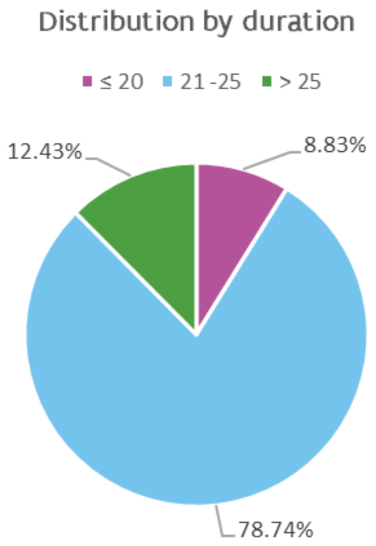
Distribution of borrower(s) by age group	
< 31 years	22.34%
31 – 40 years	40.10%
41 – 50 years	27.78%
≥ 51 years	9.78%

Distribution of borrower(s) by age group



[8] No specific statistics were available for the 4,530 selected projects.
[9] Mainly additional loans

Loan duration	Number of Loans	%
≤ 20 years	400	8.83%
21 – 25 years	3,566	78.74%
> 25 years	563	12.43%
TOTAL	4,529	100%



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