Flanders
State of the Art

Sustainability Bond Reporting

EMTN - October 2022

Team Financial Operations

DEPARTMENT OF
FINANCE &
BUDGET

financeflanders.be

Contents

Introduction

In October 2022, the Flemish Community issued its fifth sustainability bond of 1.25 billion euros. The aim of the bond is to **finance sustainable green and / or social investments**:

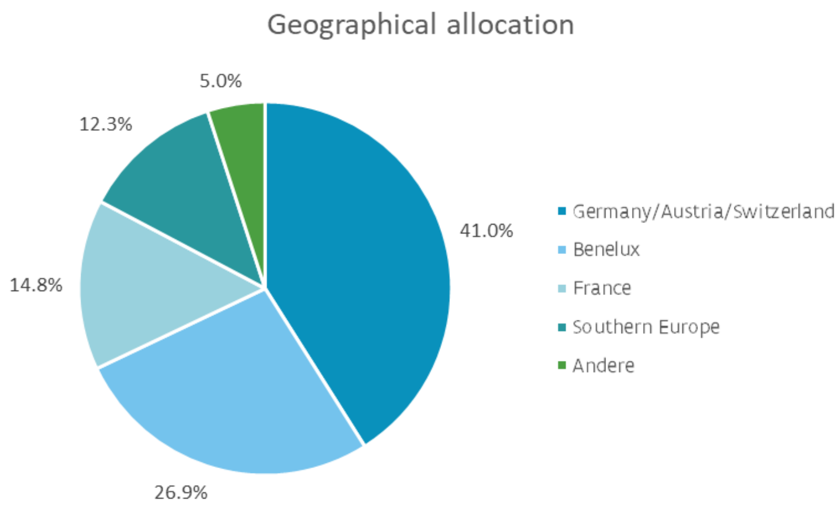
- that are in line with the sustainable development objectives previously published by Flanders in the context of "Vision 2050" and "Vizier 2030"
- that follow the requirements defined in the sustainability bond framework

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

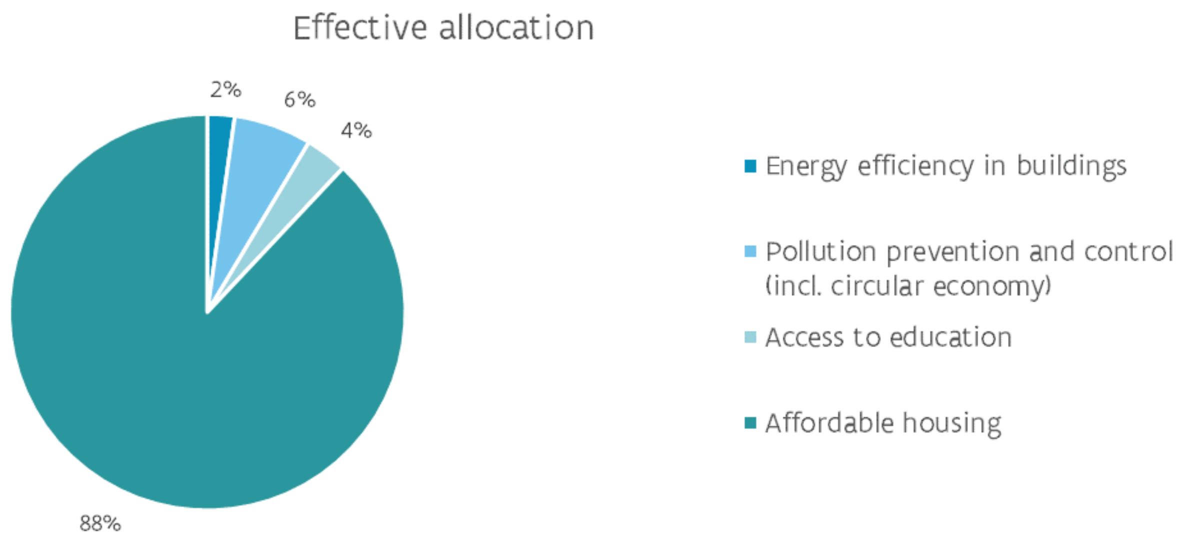
Sustainability BM October 2022	
Issue date	12 October 2022
Amount	EUR 1.25 billion
Maturity	12 January 2043
Rating	AA (Fitch)
Coupon	3.250%
Reoffer Yield	3.363%
Second Party Opinion	Sustainalytics
# Investors	54
# Countries	12



Summary

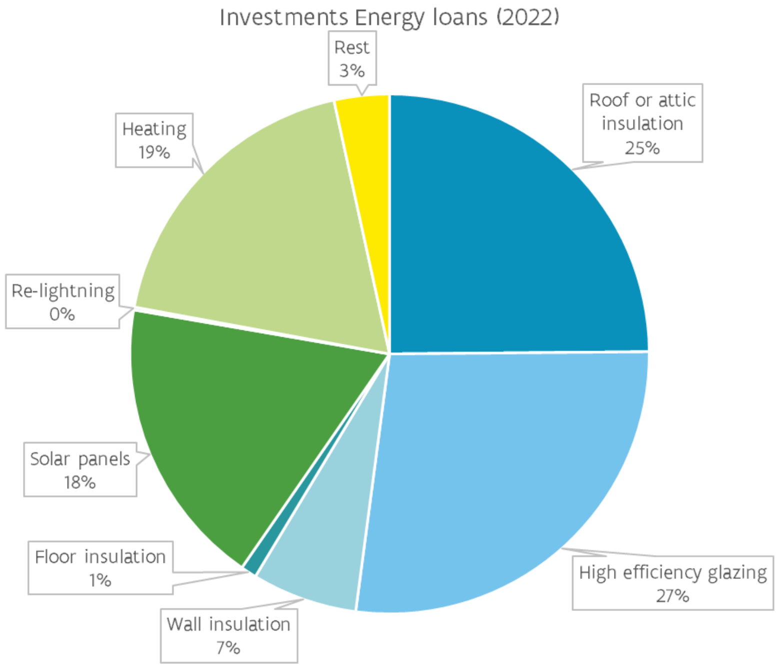
Allocation

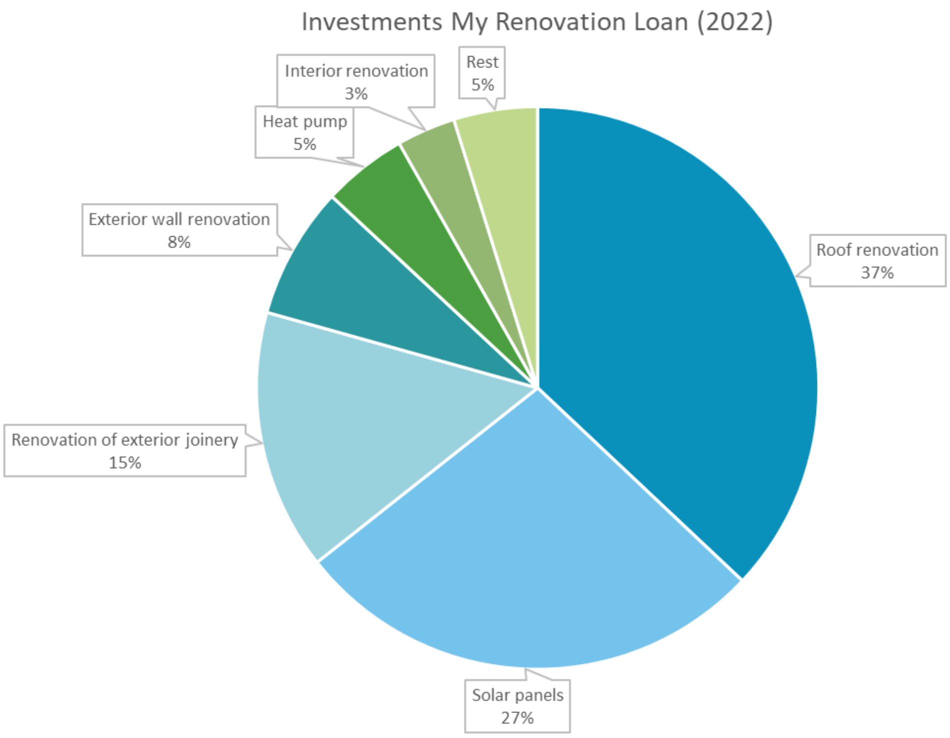
The total amount of the proceeds has been allocated as follows:



Key facts and figures for each category

Energy efficiency in buildings





Pollution prevention and control (incl. circular economy)

	Number of supported projects
Flanders Innovation & Entrepreneurship	167
Circulair Werk(t)	12

Access to education

	Number of Schools	Number of students	Average E-level[1]
Passive schools[2]	0	-	-
Non-passive schools	2	1,641	44

Affordable housing

2021

VMSW[3]	Social investments	No known E-level[4]
Owner-occupied homes	108	45
Rental properties	1,371	13,337
Average E-level	71.6	-

[1] 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.
[2] A passive school is a very energy-efficient school building that has a comfortable indoor climate in both winter and summer with minimal energy consumption. By applying passive strategies in a well thought-out design, the heat losses and heat gains are in balance.
[3] VMSW = Vlaamse Maatschappij voor Sociaal Wonen (Flemish Social Housing Association)
[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.

VWF[5] investments	
Number of family members	
1	603
2	443
3	705
4	708
5	545
6	292
7	121
8	52
9	11
10	9

2022

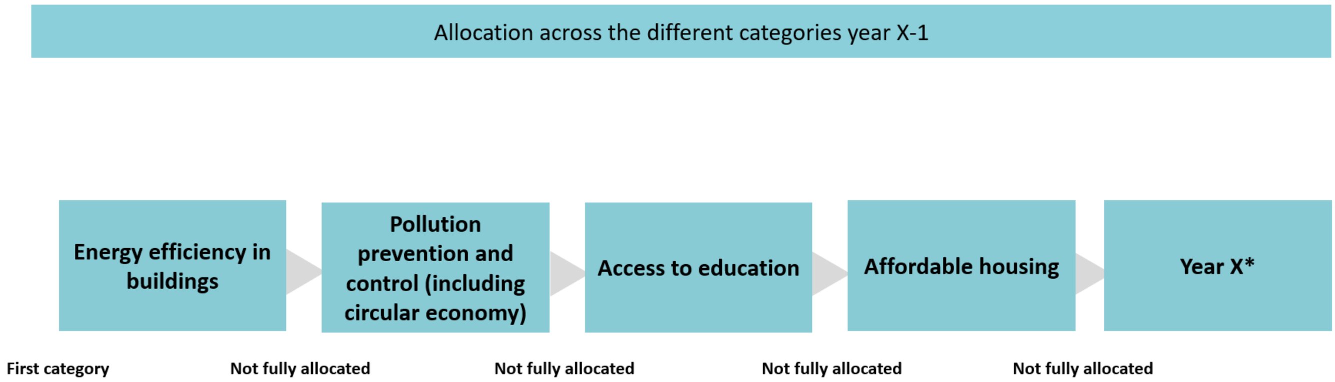
VMSW	Green investments
Owner-occupied homes	901
Rental properties	3,773
Average E-level	43.2

[5] 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).



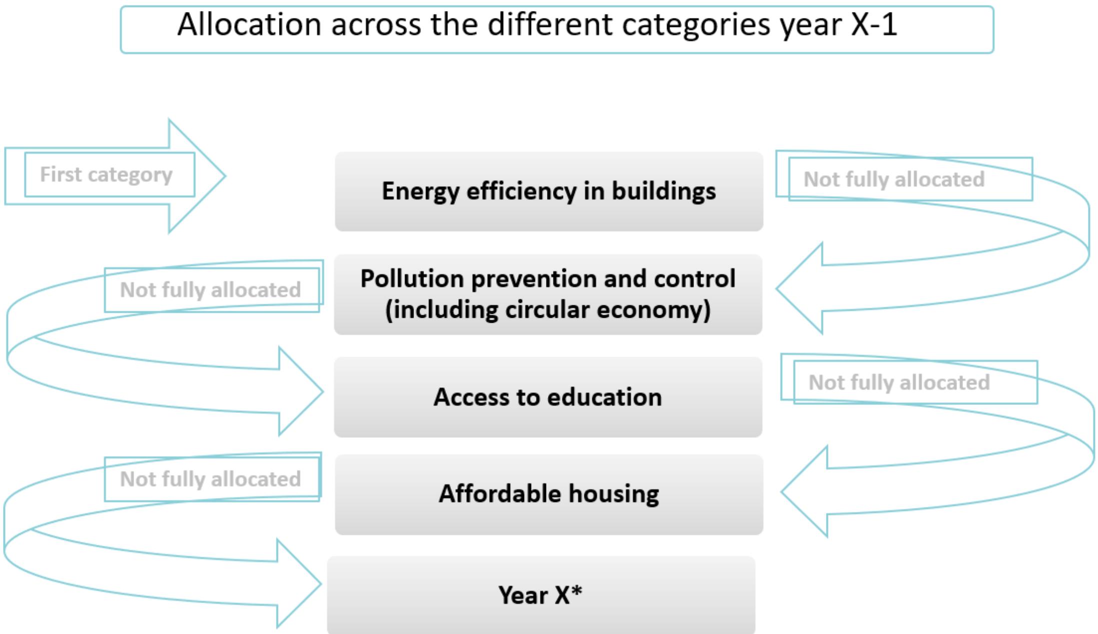
The eligible expenditures are selected depending on **Flanders' budgetary situation**:

- 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. The committee currently includes members of the Flemish Social Housing Company (VMSW), the Agency for School Infrastructure (AGION), the Flemish Energy Agency (VEA), Circular Flanders and the Department of Finance and Budget. The composition of the committee may change for futures issues.

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

2021

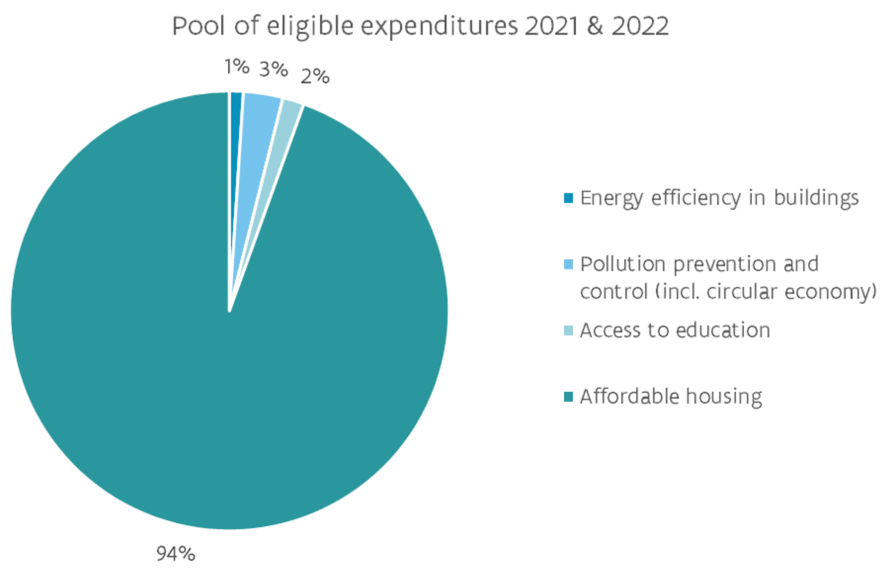
In EUR m	Pool of eligible expenditures 2021
Energy efficiency in buildings	-
Pollution prevention and control (incl. circular economy)	-
Access to education	-
Affordable housing	941.04
TOTAL	**941.04**

2022

In EUR m	Pool of eligible expenditures 2022
Energy efficiency in buildings	27.62
Pollution prevention and control (incl. circular economy)	79.46
Access to education	42.95
Affordable housing	1,638.62
TOTAL	**1,788.66**

2021 & 2022

In EUR m	Pool of eligible expenditures 2021 & 2022
Energy efficiency in buildings	27.62
Pollution prevention and control (incl. circular economy)	79.46
Access to education	42.95
Affordable housing	2,579.66
TOTAL	**2,729.69**

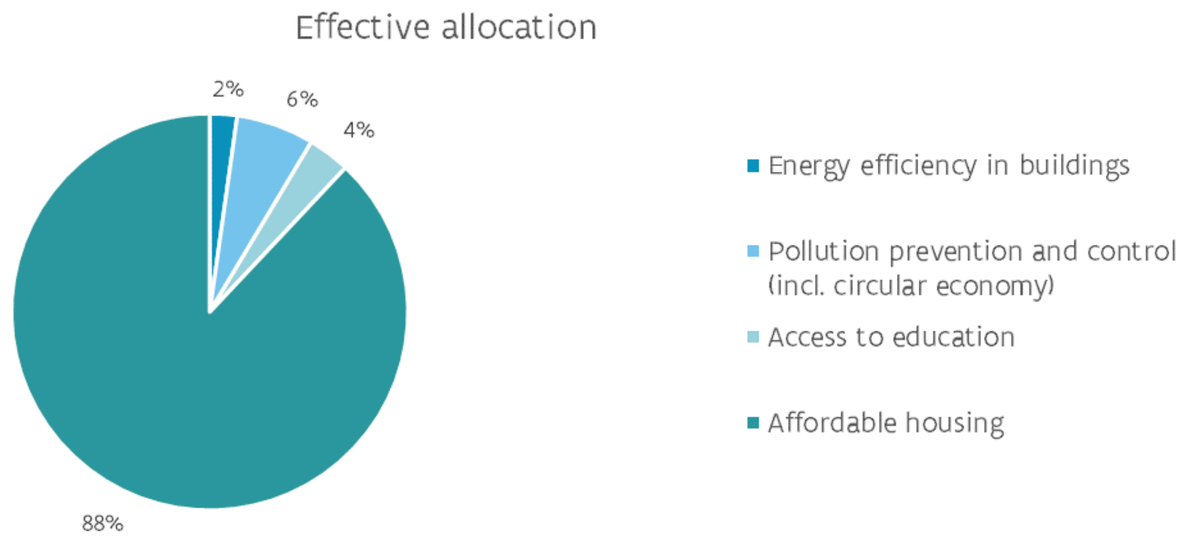


Part of the 2021 eligible expenditures had already been allocated to the fourth sustainability bond of March 2021. As a result, there is 941 million euros of eligible expenditures in 2021.

The total amount of eligible expenditures is 2,729.69 million euros. The largest part of this pool consists of the *Affordable housing* category (94%), followed by the category *Pollution prevention and control (incl. circular economy)* (3%), *Access to education* (2%) and lastly *Energy efficiency in buildings* (1%).

The following effective allocation was approved:

In EUR m	Effective allocation
Energy efficiency in buildings	27.62
Pollution prevention and control (incl. circular economy)	79.46
Access to education	42.95
Affordable housing	1,099.97
TOTAL	1,250.00



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 2022 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

27,621,904 euros of the proceeds of the sustainability bond issued in October 2022 were allocated to the category *Energy efficiency in buildings*. That equals **2.21%** of the total nominal amount of the sustainability bond.

23,970,677 euros were allocated to the *Energy loans* and 3,651,227 euros to *My Renovation Loans*.

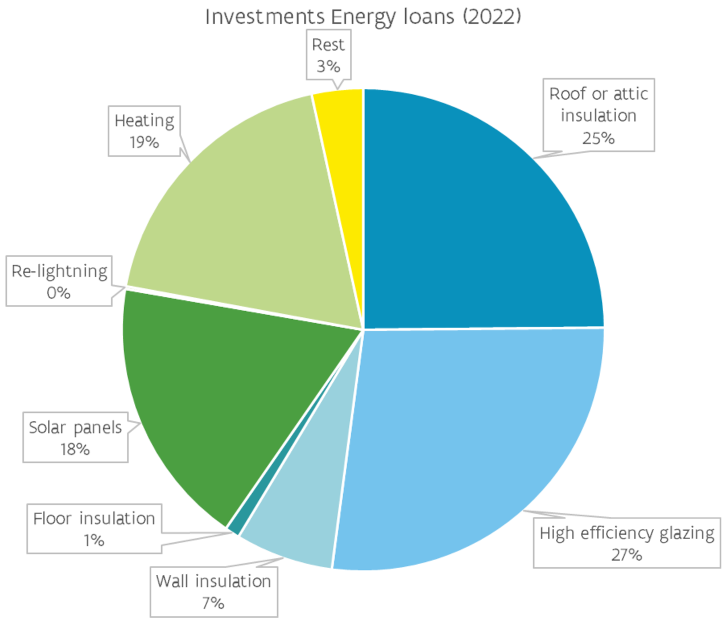
Impact

Energy loans 2022

23,970,677 euros were allocated to *Energy loans*, of which 20,927,388 euros to the priority group. 2,123 loans were granted, of which 1,925 (90.7%) to the priority group.

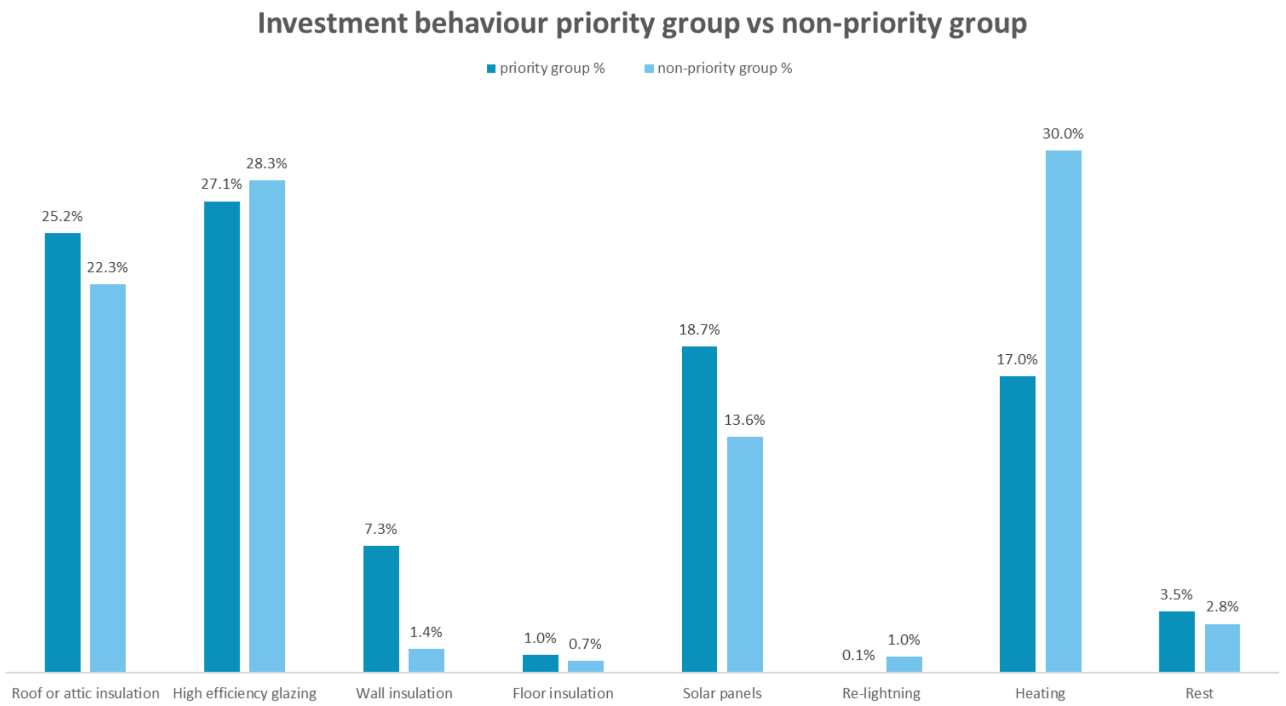
These energy loans resulted in energy savings of 1,433,025 euros.

Type of investments	In euros
Roof of attic insulation	5,959,693.61
High efficiency glazing	6,526,635.95
Wall insulation	1,572.073,30
Floor insulation	237,414.51
Solar panels	4,332,560.28
Re-lightning	43,160.44
Heating	4,473,353.03
Rest[6]	825,786.12
TOTAL	23,970,677.24



[6] Rest = Ventilation + solar boiler + energy-efficient household appliances + energy storage technologies and management system

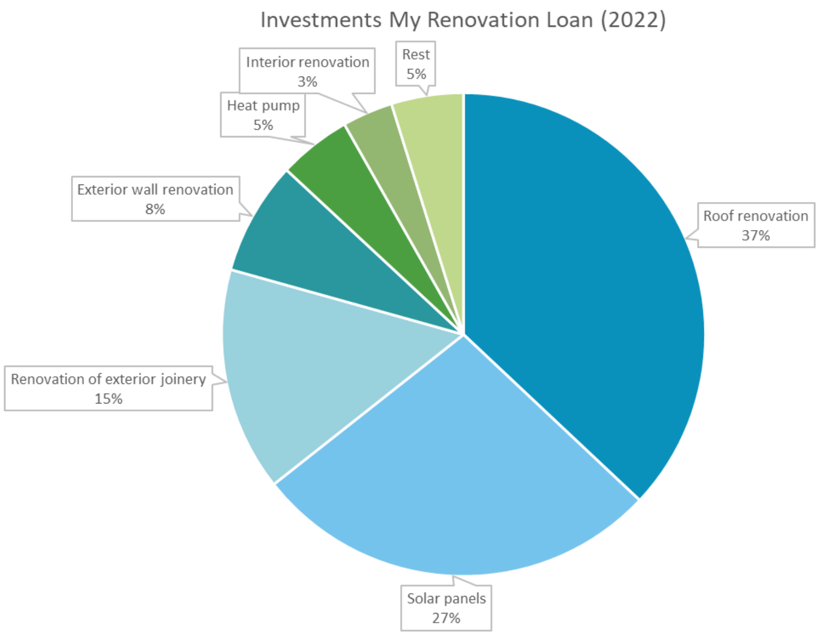
The most popular investment is high efficiency glazing (27%), closely followed by roof or attic insulation (25%).



The graph above compares the distribution of investments financed with energy loans between the priority and non-priority group. **The priority group invested in the so-called priority interventions.** The three most notable differences are heating (17.0% of the investments for the priority group versus 30.0% for the non-priority group), wall insulation (7.3% versus 1.4%) and solar panels (18.7% versus 13.6%).

My Renovation Loan 2022

Type of investments	In euros
Roof renovation	1,351,649.63
Solar panels	998,359.19
Renovation of exterior joinery	546,627.67
Exterior wall renovation	277,272.48
Heat pump	177,855.92
Interior renovation	123,484.44
Hybrid heat pump	71,007.13
Renovation of floors and foundations	56,921.87
Heat pump boiler	44,512.86
Solar boiler	3,535.58
TOTAL	3,651,226.78



The most popular investment financed by the *My Renovation Loan* is roof renovation (37%), followed by solar panels (27%) and renovation of exterior joinery (15%).

Pollution prevention and control (incl. circular economy)

Selection methodology

Which projects are eligible?

- Flanders Innovation & Entrepreneurship
- Circulair Werk(t)

Effective allocation

79,460,800 euros of the proceeds of the sustainability bond issued in October 2022 were allocated to the *Pollution prevention and control* category. That equals **6.36%** of the total nominal amount of the sustainability bond.

Impact

Flanders Innovation & Entrepreneurship[7]

Every year, Flanders Innovation & Entrepreneurship supports **circular economic projects**. These circular economic projects reduce the use of primary resources (such as fossil raw materials, water and space) to meet our needs (such as food, housing, transport, comfort, communication, health). They do this by offering or organizing services in such a way that they require less resource use (dematerialisation), by making products last longer, by keeping materials and water in a better cycle (such as through reuse and recycling) and/or by use of primary resources by using materials, water and food that have less environmental impact across the entire cycle and over multiple cycles.

In 2022, Flanders Innovation & Entrepreneurship supported 96 projects for the circular economy theme for the total amount of 44.6 million euros. These innovation grants are subsidies for innovations that play a key role in the realization of business cases at companies or for the expansion or strengthening of their research and development activities.

Another 71 projects within business economic aid were supported for the amount of 34.4 million euros. This business economic aid refers to support for investments or training and recruitment that enable companies to realize a strategic growth leap or transformation.

[7] Naar een circulaire toekomst | Agentschap Innoveren en Ondernemen (vlaio.be)

Circulair Werk(t): Oproep 520[8] [Circular Work(s): Call 520]

In order to stimulate **social and circular entrepreneurship** on a local level, a call was launched by various parties (including Circular Flanders) to unite in circular hubs. These hubs focus on networks where stakeholders meet and assess concrete collaboration. These collaborations should result in:

- New circular services or assignments for recognized social economic companies, or;
- New circular entrepreneurship with social impact.

The hub looks for economic opportunities or local needs and tests solutions within the network. The new circular services and assignments that result from this, contribute to solutions for local/regional problems. The hub pays particular attention to the added value of social economic enterprises in the circular economy. The hub also works on raising awareness about the added value of social and circular entrepreneurship among citizens and companies. In other words, the hub promotes “circulair werk(t)” in a certain region. The long-term objective of this experimental space for social circular entrepreneurship is to create extra jobs.

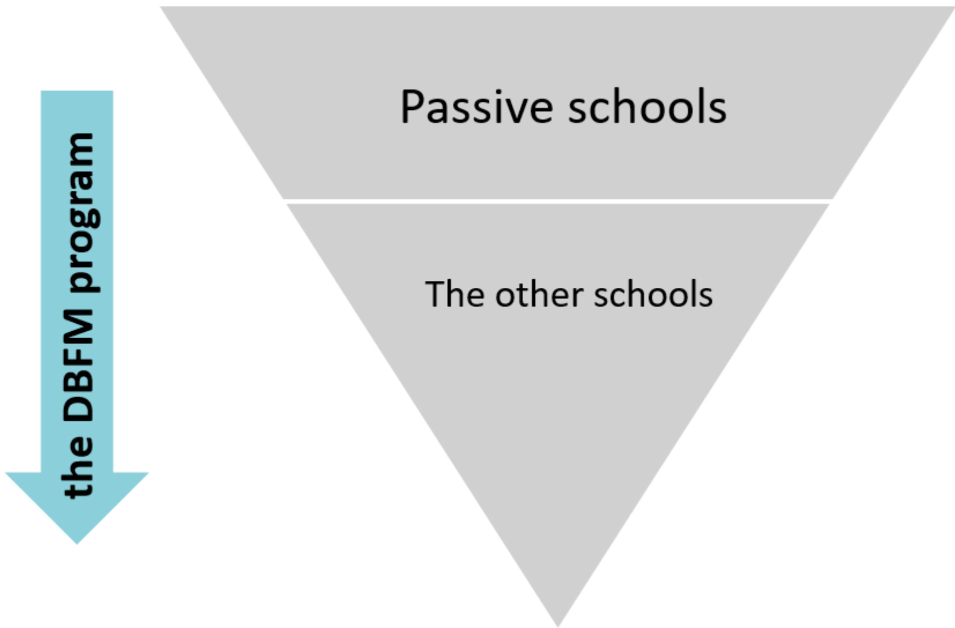
The division ESF & Sustainable Entrepreneurship and the division Social Economy & Workable Work of the Work & Social Economy Department, together with Circular Flanders, will support these local circular hubs financially for a period of 2 years.

For the ESF-call 520 Circulair Werk(t), Circular Flanders subsidized in 2022 12 parties for 460.8 thousand euros.

[8] Over ons | Circulair Werkt

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

42,948,799 euros of the proceeds of the sustainability bond issued In October 2022 were allocated to the category *Access to education*. That equals **3.44%** of the total nominal amount of the sustainability bond.

Impact

There were no passive schools selected for the allocation of this sustainability bond.

The 2 selected schools provide space for 1,641 students and have an average E-level of 44.

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 buildings)

The projects of the category *Affordable Housing* are ranked based on the E-level of the buildings.

A distinction is made between so-called green investments and social investments. **Green investments** include all projects with an E-level equal to or below 60. If the E-level is missing for some buildings of the projects or some buildings of the projects have an E-level above 60, the investments are considered **social investments**.

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

Effective allocation

1,099,969,133.56 euros of the proceeds of the sustainability bond issued in October 2022 were allocated to the *Affordable housing* category. That equals **88.0%** of the total nominal amount of the sustainability bond. The selected projects concern projects from both VMSW and VWF.

158,930,312.05 euros were allocated to the so-called green VMSW investments of 2022, while 264,316,285 euros were allocated to the social VMSW investments of 2021. For 86% (227,277,393.09 euros) of these social VMSW investments, there was no known E-level. 676,722,536.51 euros were allocated to VWF investments of 2021.

Impact

Social investments VMSW with known E-level (2021)

Social investments VMSW with known E-level - 2021	
Owner-occupied homes	108
Rental properties	1,371
TOTAL	€ 37,038,891.91

The average E-level of these social projects was 71.57. Of these projects, 92.70% were rental properties and 7.30% were owner-occupied homes.

E-level	Owner-occupied homes	Rental properties
[70 – 75[	108	1,238
[75 – 80[	0	40
[80 – 85[	0	92
[85 – 90[	0	1

Social investments with no known E-level (2021)

These investments include projects from both VMSW and VWF.

Social investments with no known E-level (VMSW) - 2021	
Owner-occupied homes	45
Rental properties	13,337
TOTAL	€ 227,277,393.09

Of these VMSW projects with no known E-level, 99.66% were rental properties and 0.34% were owner-occupied homes.

Social investments with no known E-level (VWF) - 2021	
Number of investments	3,489
Number of people who benefited from these investments	12,365
TOTAL	€ 676,722,536.51

3,489 VWF investments were selected for a total of 676,722,536.51 euros. A total of 12,365 persons benefited from these selected VWF investments.

VWF Investments		
Number of family members		Total amount
1	603	€ 103,831,793.90
2	443	€ 81,465,900.11
3	705	€ 134,361,863.36
4	708	€ 142,685,046.47
5	545	€ 112,706,064.58
6	292	€ 58,967,210.50
7	121	€ 25,839,654.59
8	52	€ 12,103,893.00
9	11	€ 2,528,610.00
10	9	€ 2,232,500.00

Green investments VMSW 2022

Green investments VMSW - 2022	
Owner-occupied homes	901
Rental properties	3,773
TOTAL	€ 158,930,312.05

The green projects that fall within this scope, have an average E-level[9] of 43.2. Of these projects, 80.72% are rental properties and 19.28% are owner-occupied homes.

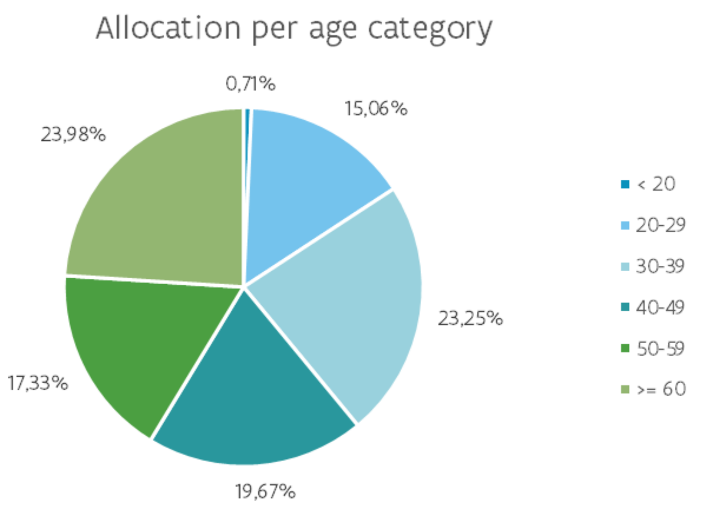
E-level	Owner-occupied homes	Rental properties
[15 – 20[	25	0
[20 – 25[	4	33
[25 – 30[	53	130
[30 – 35[	59	352
[35 – 40[	73	451
[40 – 45[	136	734
[45 – 50[	200	788
[50 – 55[	118	490
[55 – 60]	101	195
< 60[10]	132	600

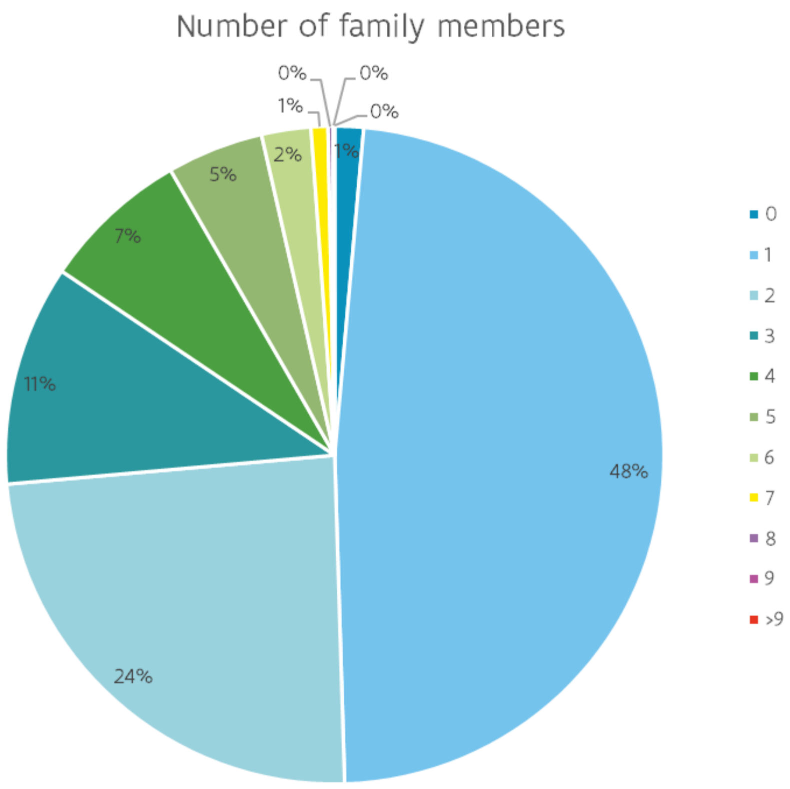
[9] The average E-level was calculated based on known E-levels.
[10] A specific E-level is no longer tracked for some VMSW projects.

VMSW statistics[11]

The three following graphs and figures give a global overview of the tenants supported by VMSW at the end of 2021. There were 9,008 newly allocated tenants on a total of 145,332 existing tenants.

Allocation per age category[12]	
< 20	64
20 – 29	1,357
30 – 39	2,094
40 – 49	1,772
50 – 59	1,561
≥ 60	2,160

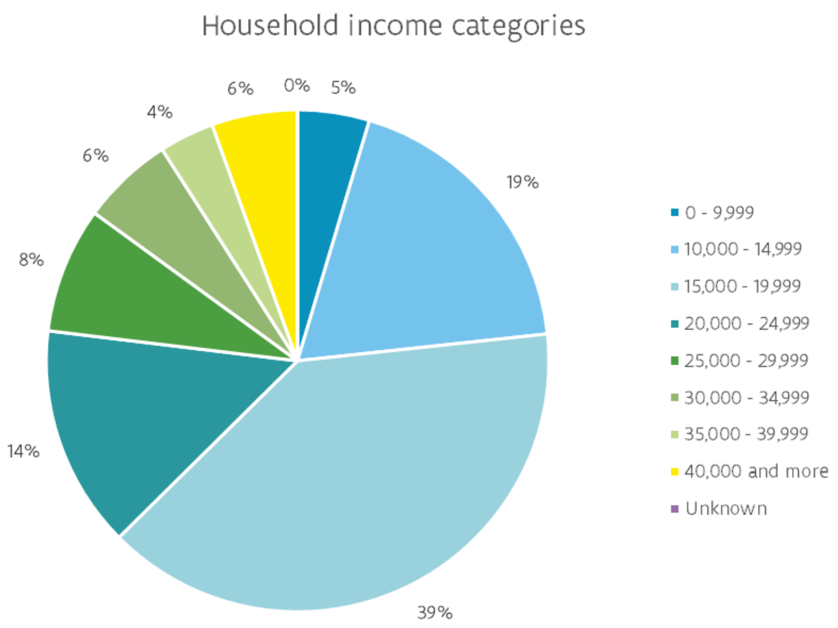




Number of family members (31/12/2021)	
0	2,051
1	69,913
2	34,989
3	15,779
4	10,524
5	6,885
6	3,515
7	1,203
8	352
9	80
> 9	41

[11] No specific statistics concerning the following information were available for the selected projects.
[12] 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[13] categories In EUR (31/12/2021)	
0	1,051
0.01 – 2,499	851
2,500 – 4,999	879
5,000 – 7,499	1,532
7,500 – 9,999	2,402
10,000 – 12,499	9,539
12,500 – 14,999	17,595
15,000 – 17,499	37,047
17,500 – 19,999	20,048
20,000 – 22,499	11,946
22,500 – 24,999	8,886
25,000 – 27,499	6,426
27,500 – 29,999	5,369
30,000 – 32,499	4,770
32,500 – 34,999	3,832
35,000 – 37,499	3,031
37,500 – 39,999	2,105
40,000 and more	8,017
Unknown	6



[13] 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 2021.

SOCIAL PATRIMONIUM RENOVATION (cost renovation higher than 15,000 euros per residence)	
Number of residences	
Preliminary draft	1,104
Award	2,320
Delivery	1,871
Number of projects	
Preliminary draft	22
Award	83
Delivery	81
Total net cost	
Preliminary draft	€ 45,870,543
Award	€ 221,273,589
Delivery	€ 150,514,984
Total investment (allocations)	
Award	€ 298,051,103
Delivery	€ 200,616,950

The EPB-requirements for housing for the period 2021 are:

- For construction: maximum E30 per housing unit
- For major energetic renovation: maximum E70 per housing unit

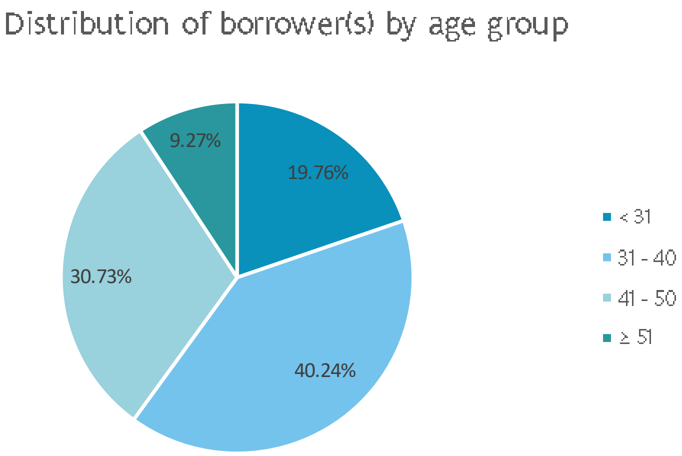
VWF statistics – Flemish housing loan[14]

The following graphs and figures give a global overview of the new borrowers supported by VWF at the end of 2021.

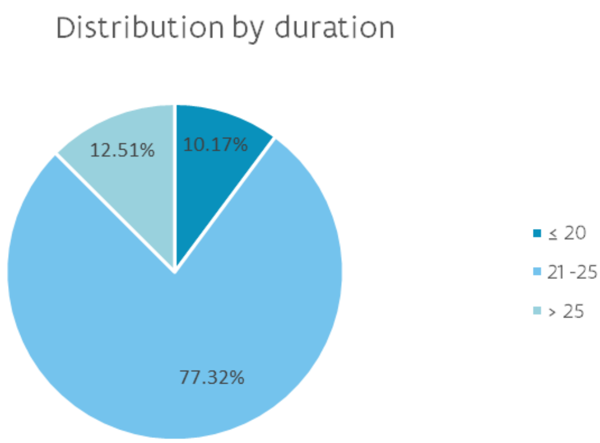
The monthly net family income (including any growth package) of families who acquired their own home in 2021 thanks to the Flemish housing loan is on average 2,686.59 euros.

The average amount of a housing loan provided by VWF was 196,029.70 euros in 2021.

Distribution of borrower(s) by age group	
< 31 years	19.76%
31 – 40 years	40.24%
41 – 50 years	30.73%
≥ 51 years	9.27%



Loan duration	Number of Loans	%
≤ 20 years	351	10.17%
21 – 25 years	2,669	77.32%
> 25 years	432	12.51%
TOTAL	3,452	100%



[14] No specific statistics concerning the following information were available for the selected 3,489 projects.

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