Vlaamse overheid

Sustainability Bond Reporting

EMTN 2021

Team Financial Operations

DEPARTEMENT
FINANCIËN & BEGROTING

financeflanders.be

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Sustainability Bond Reporting – EMTN 2021

Introduction

In March 2021 Flanders issued its fourth sustainability bond of 1.25 billion euros. The aim of the bond is to finance sustainable green and / or social investments:

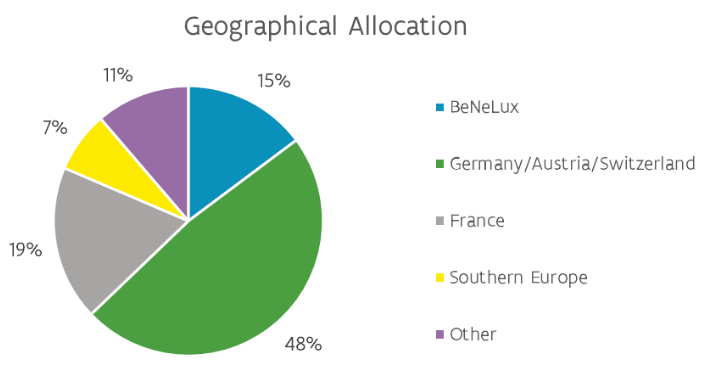
- that are in line with the sustainable development objectives previously published by Flanders in the context of "Vision 2050" and "Vizier 2030"
- that follow the requirements defined in the sustainability bond framework

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

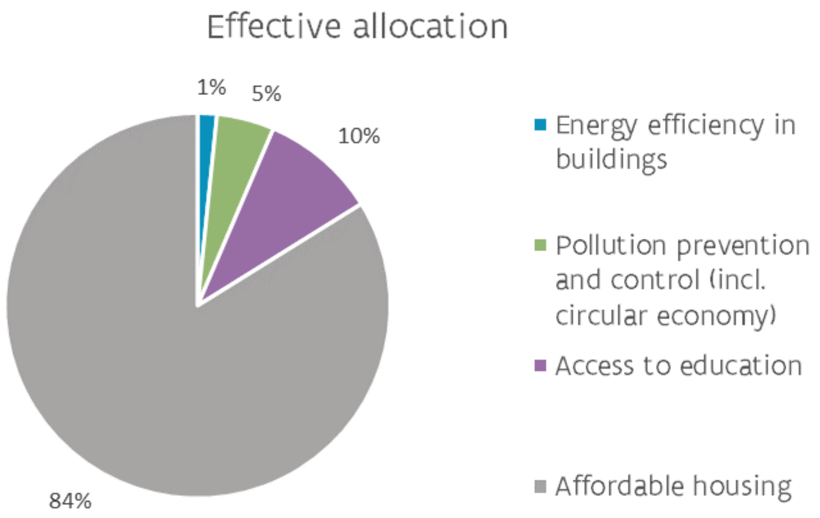
Issue date	24 March 2021
Amount	EUR 1.25 billion
Maturity	21 March 2046
Rating	AA (Fitch)
Coupon	0.875%
Reoffer Yield	0.891%
Second Party Opinion	Sustainalytics
# Investors	135
# Countries	21



Summary

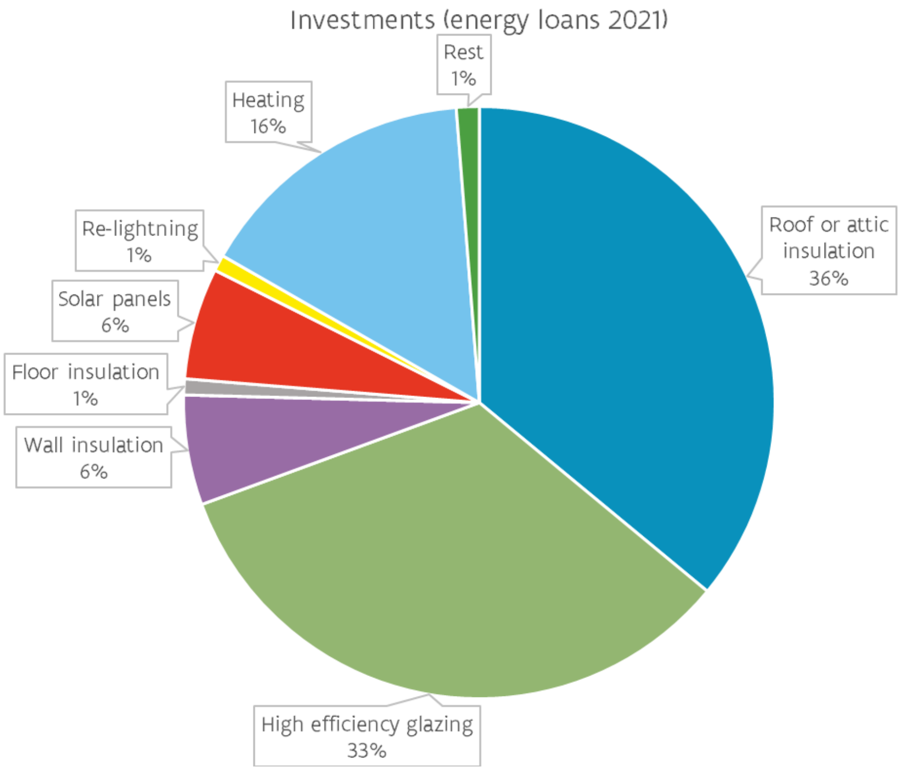
Allocation:

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



Key fact and figures for each category:

Energy efficiency in buildings



Pollution prevention and control (incl. circular economy)

	Number of supported projects
Flanders Innovation & Entrepreneurship	130
Circulair Werk(t)	12

Access to Education

	Number of Schools	Number of Students	Average E-level[1]
Passive schools[2]	0	-	-
Non-passive schools	13	6,014	47

Affordable housing

2020

VMSW[3]	Green investments	Social investments	No known E-level[4]
Owner-occupied homes	1,277	283	830
Rental properties	3,835	2,613	15,430
Average E-level	49.5	68.9	-

[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. It can therefore be assumed that the vast majority of projects with an unknown E-level have an E-level less than 60.

VWF[5] investments	
Number of family members	
1	249
2	251
3	314
4	396
5	301
6	153
7	60
8	17
9	14
10	3
11	3
19	1

2021

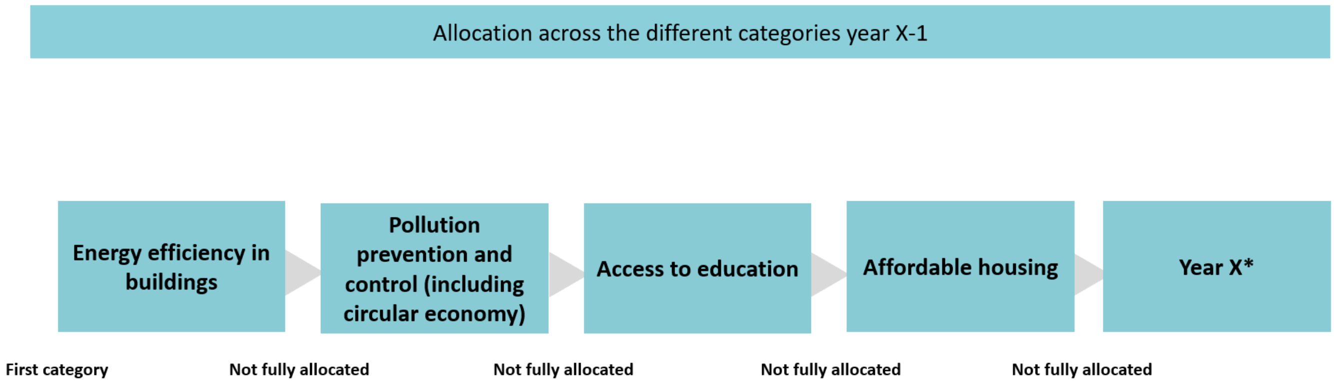
VMSW	Green investments	Social investments
Owner-occupied homes	2,188	61
Rental properties	7,597	1,041
Average E-level	44.2	66.6

[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**:

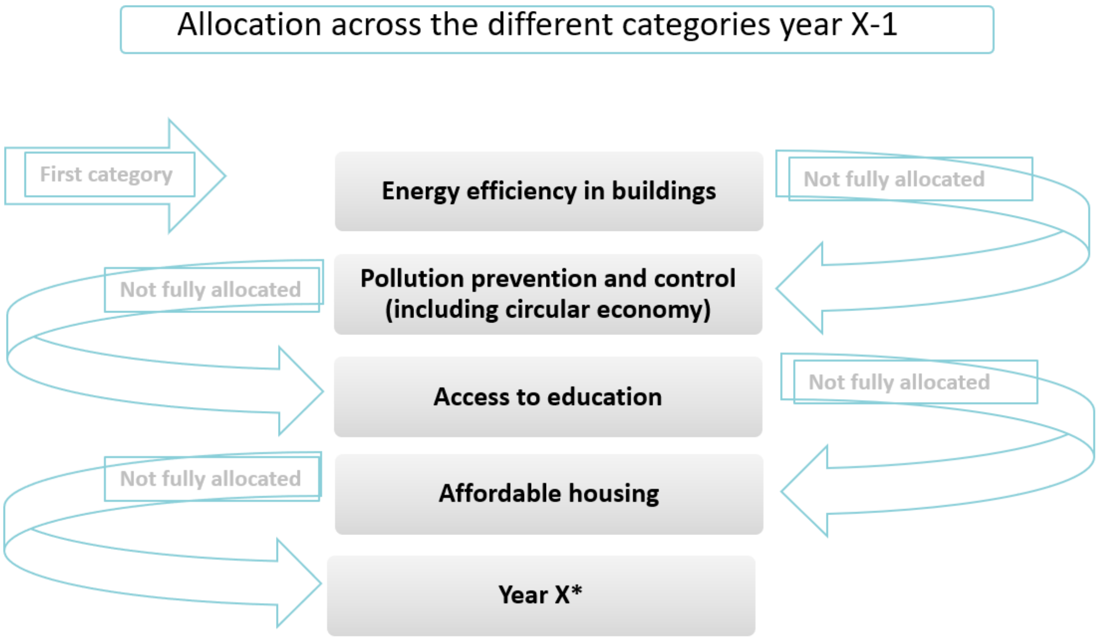
- If the ESA (European System of Accounts) **budget is balanced** in the year X-1, ESA revenues are sufficient to finance ESA expenditures. Consequently, only ESA expenditures excluded from the financial balance related to the consolidated public debt are eligible, as projects cannot be financed twice.
- 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). The 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 of 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

2020:

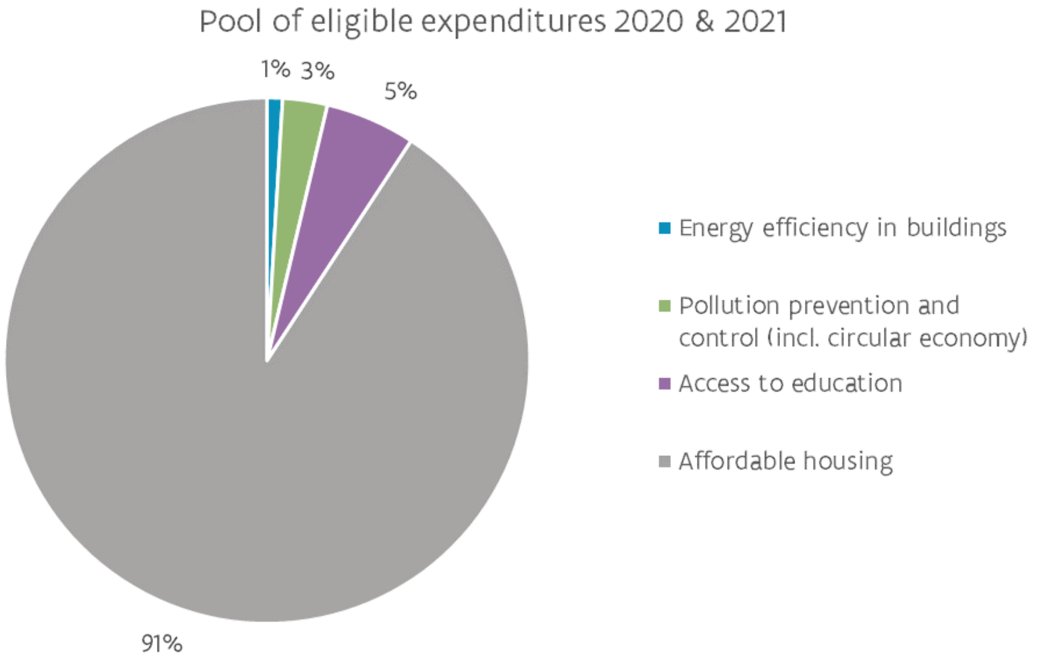
In EUR m	Pool of eligible expenditures 2020
Energy efficiency in buildings	-
Pollution prevention and control (incl. circular economy)	-
Access to education	-
Affordable housing	645.24
Total	**645.24**

2021:

In EUR m	Pool of eligible expenditures 2021
Energy efficiency in buildings	20.80
Pollution prevention and control (incl. circular economy)	60.30
Access to education	121.31
Affordable housing	1,343.39
Total	**1,545.81**

2020 & 2021:

In EUR m	Pool of eligible expenditures 2020 & 2021
Energy efficiency in buildings	20.80
Pollution prevention and control (incl. circular economy)	60.30
Access to education	121.31
Affordable housing	1,988.63
Total	**2,191.04**

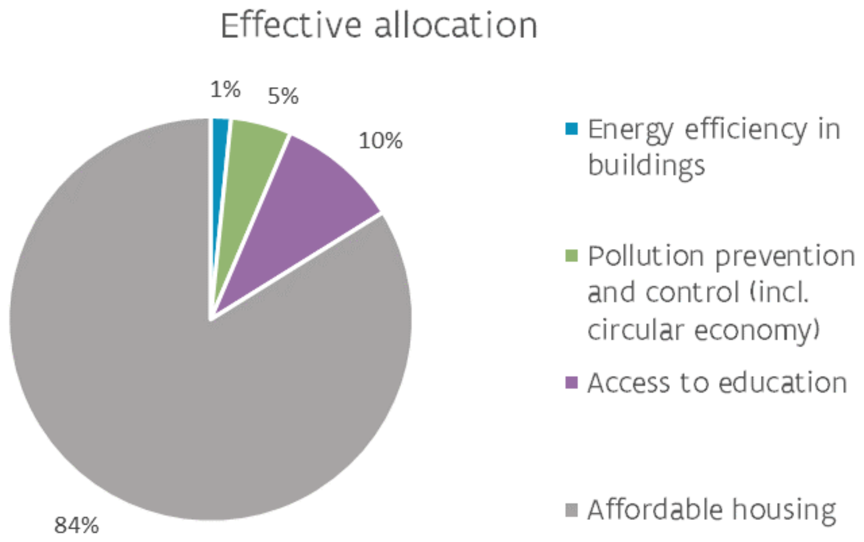


The majority of the 2020 eligible expenditures had already been allocated to the third sustainability bond of April 2020. As a result, there is only a limited amount of eligible expenditures in 2020.

The total amount of eligible expenditures is 2,191.04 million euros. The largest part of this pool consists of the *Affordable housing* category (91%), followed by the category *Access to education* (5%), *Pollution prevention and control (incl. circular economy)* (3%) and lastly *Energy efficiency in buildings* (1%).

The following effective allocation was approved:

In EUR m	Effective allocation
Energy efficiency in buildings	20.80
Pollution prevention and control (incl. circular economy)	60.30
Access to education	121.31
Affordable housing	1,047.59
Total	**1,250.00**



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Energy efficiency in buildings

Selection Methodology

Fund: /

Energy loans:

1. Limitation of energy loss

Projects that improve the shell of the building and that contribute to the reduction of energy loss.

1. All kinds of insulation
2. High-efficiency glazing
3. Investments that lead to air-tightening of the building

2. Energy-efficient equipment

Projects that provide a building with energy efficient equipment

1. All kinds of economical heating systems
2. Relighting or relamping
3. All kinds of energy-efficient household appliances

3. Renewable energy

Projects that increase the use of renewable energy in a building

1. Solar panels, solar water heater, heat pump,...
2. Energy storage techniques and management systems.

4. Energy audit

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 2021 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.

Until the end of 2018, anyone could benefit from the renovation loan. However, vulnerable low-income households had priority, which was reflected in the applicable interest rate.

Since 2019, only non-commercial legal entities, cooperative companies (until the end of 2019) and **vulnerable low-income households** can apply for the renovation loan. Vulnerable groups, the so-called 'priority group", currently enjoy a zero-interest rate.

Effective Allocation

20,803,211.85 euros of the proceeds of the sustainability bond issued in March 2021 were allocated to the category *Energy efficiency in buildings*. That equals **1.66%** of the total nominal amount of the sustainability bond.

Impact[6]

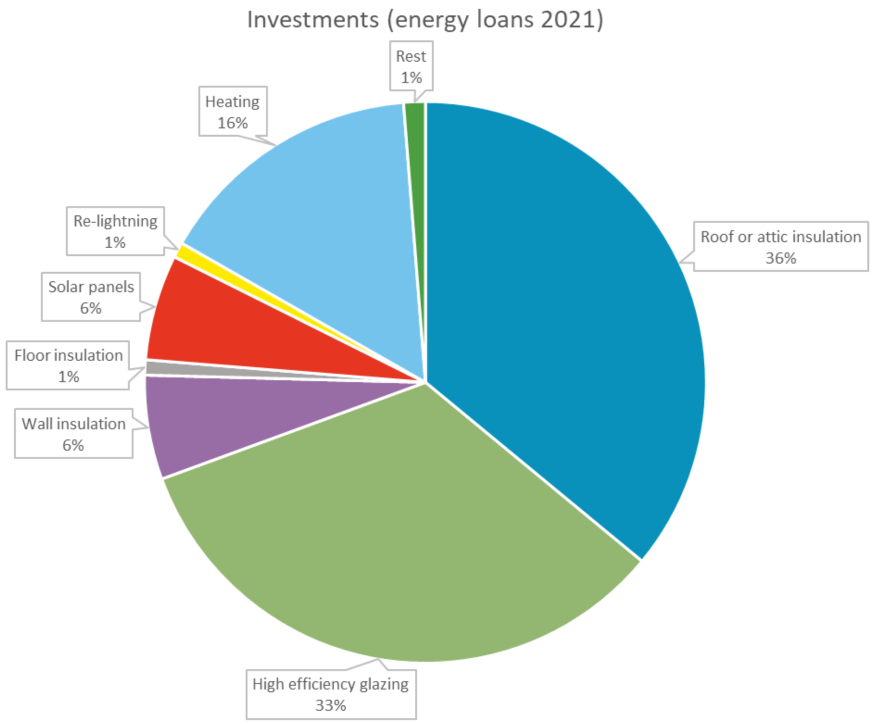
Energy loans 2021

20,803,211.85 euros were allocated to *Energy loans*, of which **20,205,364.16 euros to the priority group**. 1,951 energy loans were granted, of which 1,927 (98.8%) to the priority group.

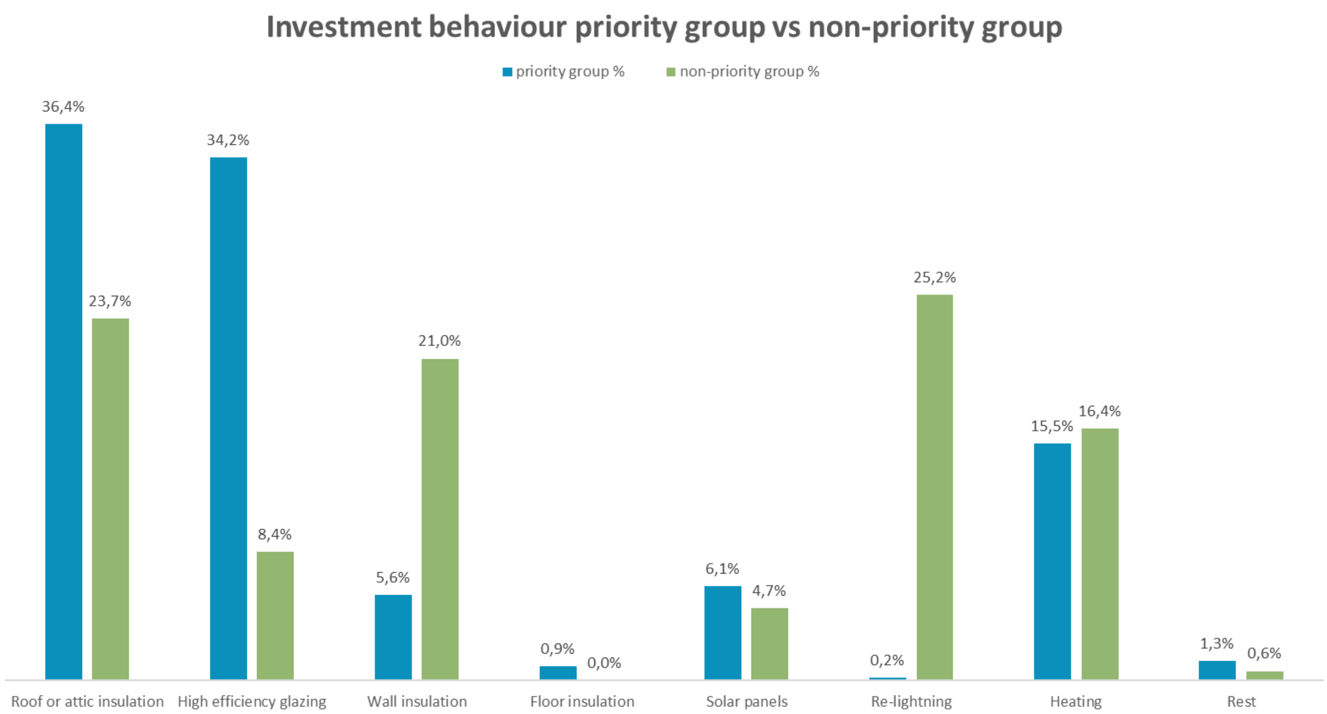
These energy loans resulted in **energy savings of 1,316,925 euros** and in **1,232 ton avoided CO_2 emissions.**

[6] Based on information provided by VEA (Flemish Energy Agency)

The following figure shows the most common investments financed with energy loans in 2021.



The most popular investment is roof or attic insulation (36%), closely followed by high efficiency glazing (33%).



The graph above compares the distribution of investments financed with energy loans between the priority and non-priority group. T**he priority group invested in the so-called priority interventions,** such as roof or attic insulation (36.4% of the investments for the priority group versus 23.7% for the non-priority group), followed by high efficiency glazing (34.2% versus 8.4%) and heating (15.5% versus 16.4%).

Pollution prevention and control (incl. circular economy)

Selection Methodology

Which projects are eligible?

- Flanders Innovation & Entrepreneurship
- Circulair Werk(t)

Effective allocation

60.30 million euros of the proceeds of the sustainability bond issued in March 2021 were allocated to the *Pollution prevention and control* category. That equals **4.82%** 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 2021, Flanders Innovation & Entrepreneurship supported 94 projects for the circular economy theme for the total amount of 40.5 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 36 projects within business economic aid were supported for the amount of 19.1 million euros. This business economic aid refers to support for investments or

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

training and recruitment that enable companies to realize a strategic growth leap or transformation.

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.

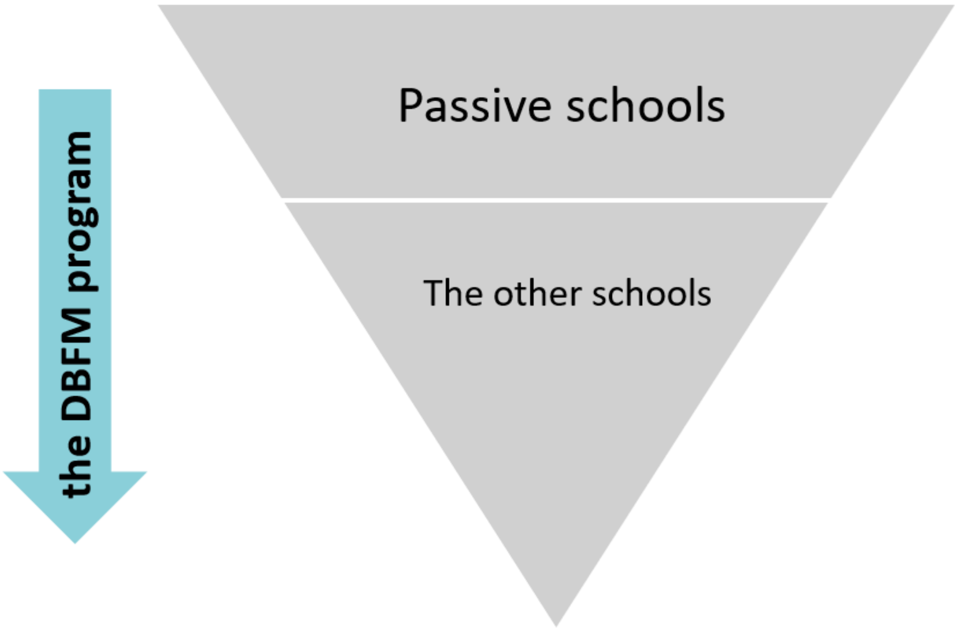
The division ESF & Sustainable Entrepreneurship and the division Social Economy & Workable Work of the Work & Social Economy Department, together with Circular Flanders, will support these local circular hubs financially for a period of 2 years.

For the ESF-call 520 Circulair Werk(t), Circular Flanders subsidized in 2021 12 parties for 704 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

121,306,785 euros of the proceeds of the sustainability bond issued In March 2021 were allocated to the category *Access to education*. That equals **9.70%** of the total nominal amount of the sustainability bond.

Impact

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

The 13 selected schools provide space for 6,014 students and have an average E-level of 47.

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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* category 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 project 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

1,047,589,109 euros of the proceeds of the sustainability bond issued in March 2021 were allocated to the *Affordable housing* category. That equals **83.81%** of the total nominal amount of the sustainability bond. The selected projects concern projects from both VMSW as VWF.

511,100,217 euros were allocated to the so-called green VMSW investments (132,258,268 euros in 2020 and 378,841,949 euros in 2021), while 233,810,735 euros were allocated to the social VMSW investments (210,299,751 euros in 2020 and 23,510,985 euros in 2021). For 72% (168,407,324 euros) of these social VMSW investments, there was no known E-level. 302,678,158 euros were allocated to VWF investments.

Impact

Green investments VMSW 2020

Green investments	
Owner-occupied homes	1,277
Rental properties	3,835
Average E-level	49.5

The green projects that fall within this scope, have an average E-level of 49.5. Of these projects, 75% are rental properties and 25% are owner-occupied homes.

E-level	Owner-occupied homes	Rental properties
[40 – 45[	250	513
[45 – 50[	431	1,382
[50 – 55[	433	1,528
[55 – 60[	163	412

Social investments VMSW with known E-level (2020)

Social investments	
Owner-occupied homes	283
Rental properties	2,613
Average E-level	68.9

The average E-level of these social projects was 68.9. Of these projects, 90.23% were rental properties and 9.77% were owner-occupied homes.

E-level	Owner-occupied homes	Rental properties
[60 – 65[	87	371
[65 – 70[	79	433
[70 – 75[	117	1,536
[75 – 80[	0	65
[80 – 85[	0	105
[85 – 90[	0	101
[90 – 95[	0	2

Social investments with no known E-level (2020)

These investments include projects from both VMSW and VWF.

VMSW investments	
Owner-occupied homes	830
Rental properties	15,430

Of these VMSW projects with no known E-level, 94.9% were rental properties and 5.1% were owner-occupied homes.

VWF investments		
Number of family members		Total amount
1	249	€ 39,375,764
2	251	€ 39,700,345
3	314	€ 50,727,809
4	396	€ 66,604,135
5	301	€ 57,104,980
6	153	€ 29,302,805
7	60	€ 11,452,680
8	17	€ 3,336,480
9	14	€ 3,248,590
10	3	€ 772,500
11	3	€ 550,200
19	1	€ 501,870

1,762 VWF investments were selected for a total of 302,678,158 euros. A total of 6,464 persons have benefited from these selected VWF investments.

Green investments VMSW 2021

Since 2021, VMSW has implemented a new system to track their investments. Since all "green" investments have an E-level below 60, a separate E-level is no longer tracked.

Green investments	
Owner-occupied homes	2,188
Rental properties	7,597
Average E-level[9]	44.2

[9] This is the average E-level of the known E-levels, excluding the category "< 60".

The projects that fall within this scope, have an average E-level of 44.2. Of these projects, 77.6% are rental properties and 22.4% are owner-occupied homes.

E-level	Owner-occupied homes	Rental properties
[15 – 20[	52	18
[20 – 25[	7	33
[25 – 30[	67	233
[30 – 35[	49	397
[35 – 40[	120	670
[40 – 45[	191	1,124
[45 – 50[	460	1,133
[50 – 55[	224	1,022
[55 – 60[	168	351
< 60	850	2,616

Social investments VMSW with known E-level (2021)

Social investments VMSW	
Owner-occupied homes	61
Rental properties	1,041
Average E-level	66.6

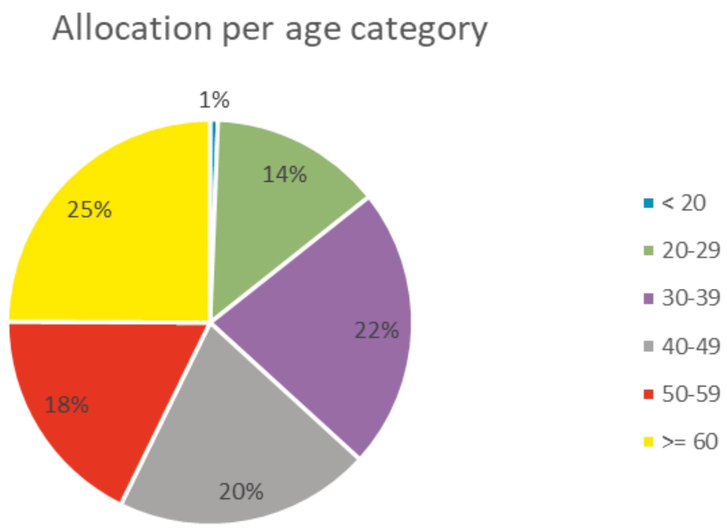
The average E-level of these social projects is 66.6. Of these projects, 94.5% are rental properties and 5.5% are owner-occupied homes.

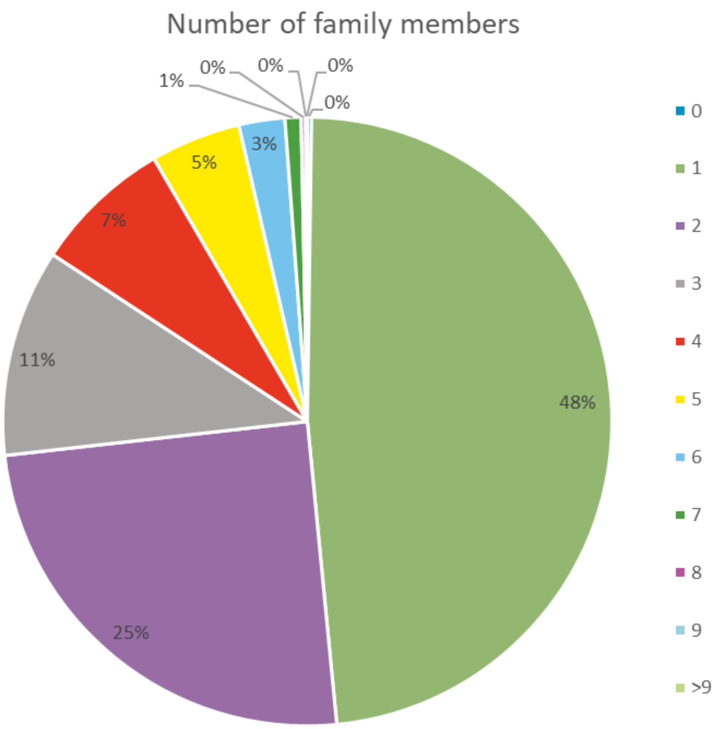
E-level	Owner-occupied homes	Rental properties
[60 – 65[	40	309
[65 – 70[	7	352
[70 – 75[	14	380

VMSW statistics[10]

The three following graphs and figures give a global overview of the tenants supported by VMSW at the end of 2020. **There were 8,146 newly allocated tenants on a total of 144,812 existing tenants.**

Allocation per age category[11]	
< 20	51
20-29	1,117
30-39	1,828
40-49	1,669
50-59	1,451
>= 60	2,030

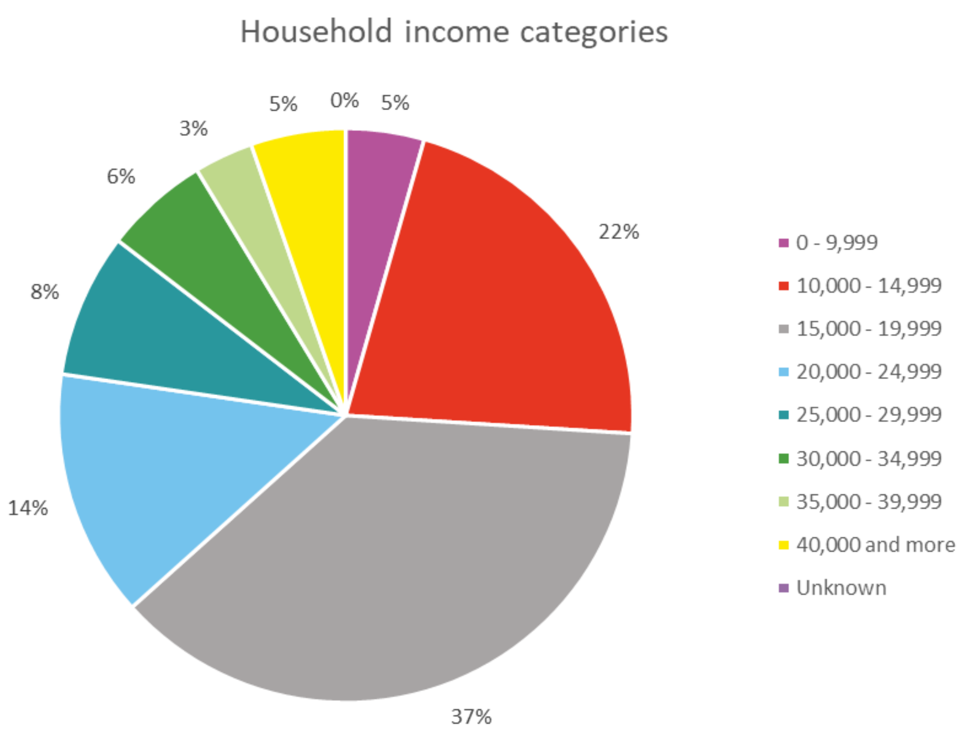




Number of family members (31/12/2020)	
0	322
1	69,852
2	35,855
3	15,963
4	10,659
5	6,927
6	3,533
7	1,238
8	338
9	89
>9	36

[10] No specific statistics concerning the following information were available for the selected projects.
[11] 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[12] categories In EUR (31/12/2020)	
0	769
0.01 – 2,499	832
2,500 – 4,999	872
5,000 – 7,499	1,587
7,500 – 9,999	2,329
10,000 – 12,499	9,942
12,500 – 14,999	21,326
15,000 – 17,499	34,515
17,500 – 19,999	19,578
20,000 – 22,499	11,819
22,500 – 24,999	8,388
25,000 – 27,499	6,425
27,500 – 29,999	5,337
30,000 – 32,499	4,801
32,500 – 34,999	3,736
35,000 – 37,499	2,815
37,500 – 39,999	2,003
40,000 and more	7,731
Unknown	7



In 2020, VMSW delivered a total of 2,887 residences, of which 1,914 were rented and 973 purchased.

Delivered residences	
Rental sector	1,914
Purchasing sector	973
Total	2,887

The following table gives an overview of the renovation of the social patrimony in 2020.

SOCIAL PATRIMONY RENOVATION (cost renovation higher than 15,000 euros per residence)	
Number of residences	
Preliminary draft	1,960
Award	2,887
Delivery	2,060
Number of projects	

[12] 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).

Preliminary draft	50
Award	92
Delivery	85
Total net cost	
Preliminary draft	€ 145,420,609
Award	€ 195,217,487
Delivery	€ 173,653,526
Total investment (allocations)	
Award	€ 268,966,478
Delivery	€ 213,336,479

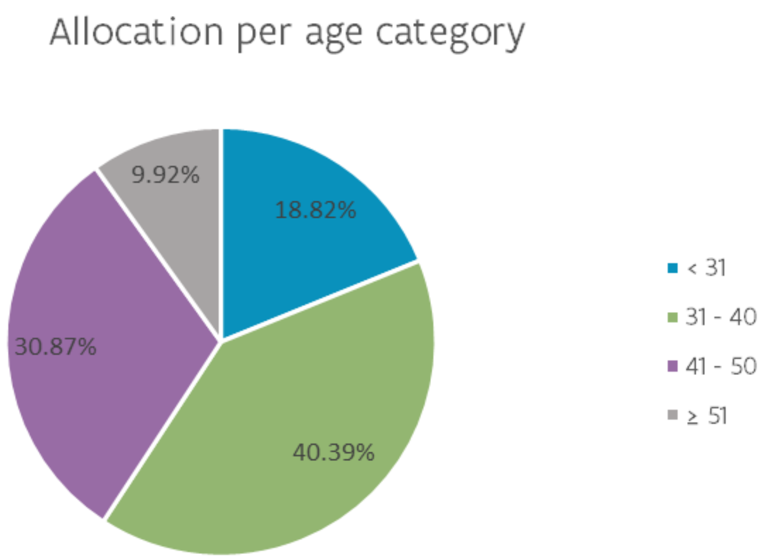
The EPB-requirements for housing for the period 2020 are:

- For construction: maximum E35 per housing unit
- For major energetic renovation: maximum E70 per housing unit

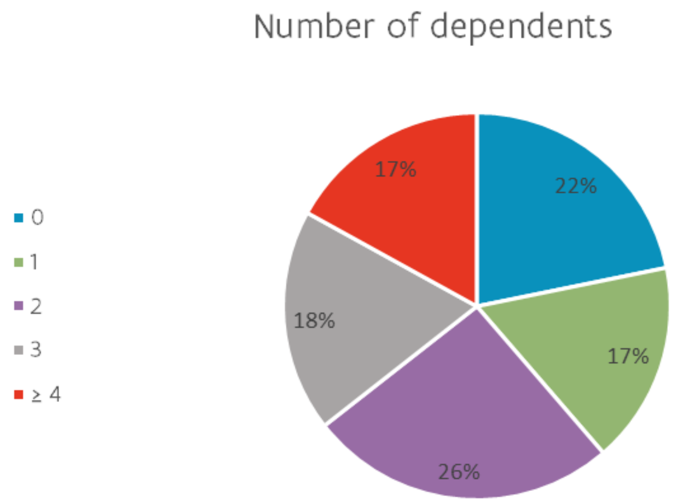
VWF statistics[13]

The following graphs and figures give a global overview of the new borrowers supported by VWF at the end of 2020.

Allocation per age category	
< 31	18.82%
31 – 40	40.39%
41 – 50	30.87%
≥ 51	9.92%



[13] No specific statistics concerning the following information were available for the selected 1,762 projects.



Number of dependents	Absolute figures	%
0	380	21.80
1	294	16.87
2	449	25.76
3	324	18.59
≥ 4	296	16.98
Total	1,743	100.00

Income categories (in EUR)	Number of loans	%	Average number of people at home	Average net family income (in EUR)
≤ 1,500	33	1.89%	1.67	1,367.67
1,500.01 – 2,000.00	387	22.20%	1.95	1,781.61
2,000.01 – 2,500.00	389	22.32%	3.27	2,240.96
2,500.01 – 3,000.00	370	21.23%	4.35	2,743.44
> 3,000.00	564	32.36%	4.82	3,590.80