Sustainability Bond Reporting – EMTN 2020

Introduction

In April 2020 Flanders issued its third sustainability bond of 1.25 billion euro followed by a tap of 70 million euros in November 2020 which brought the total amount issued to 1.32 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.

Flanders committed to report on the allocation and impact of the sustainability bond in the calendar year following the year of issuance.

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

Issuances' characteristics

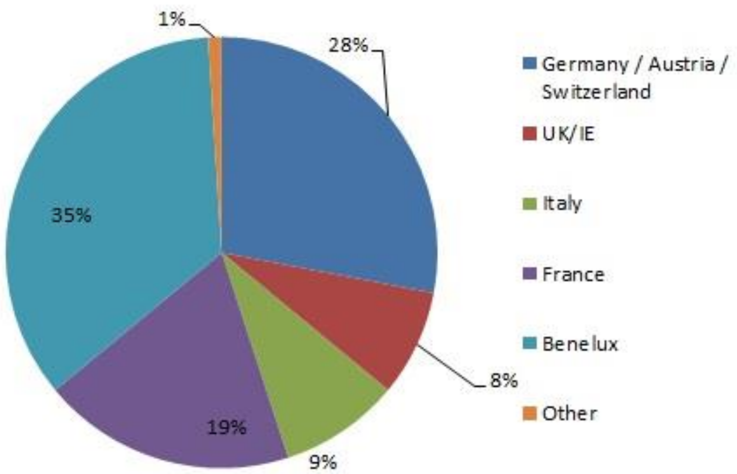
April 2020

Issue date	3 April 2020
Amount	EUR 1.25 billion
Maturity	15 April 2030
Rating	AA (Fitch)
Coupon	0.375%
Reoffer Yield	0.455%
Second Party Opinion	Sustainalytics
# Investors	82
# Countries	15

November 2020

Issue date	19 November 2020
Amount	EUR 70 million
Maturity	15 April 2030
Coupon	0.375%
Reoffer Yield	-0.110%
Second Party Opinion	Sustainalytics

Investors split by geography (April 2020 issuance only)



Flanders
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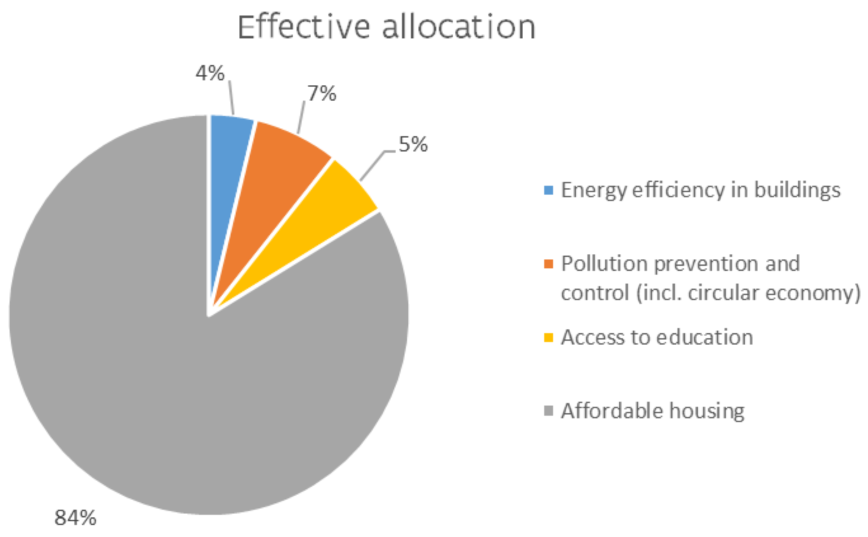
Summary

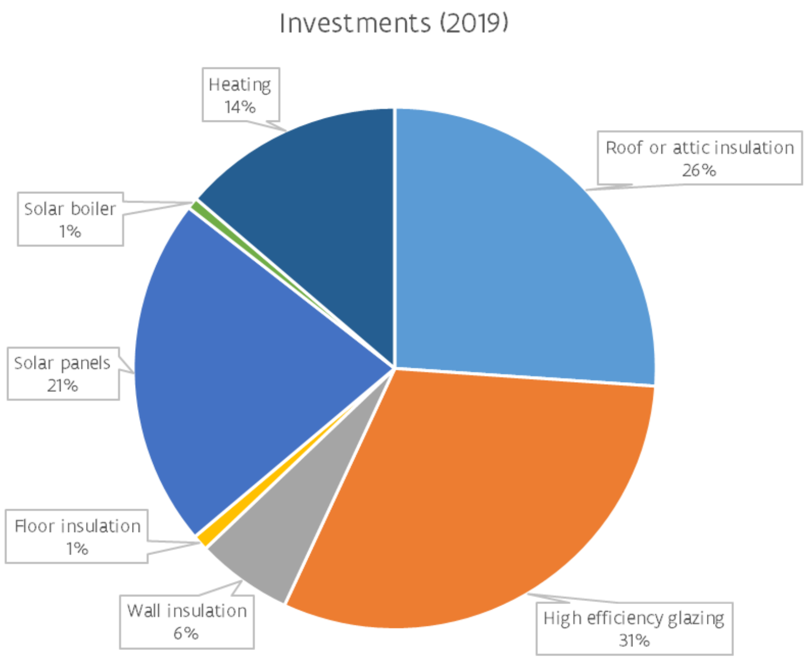
Allocation:

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



Key fact and figures for each category:

Energy efficiency in buildings



Flanders
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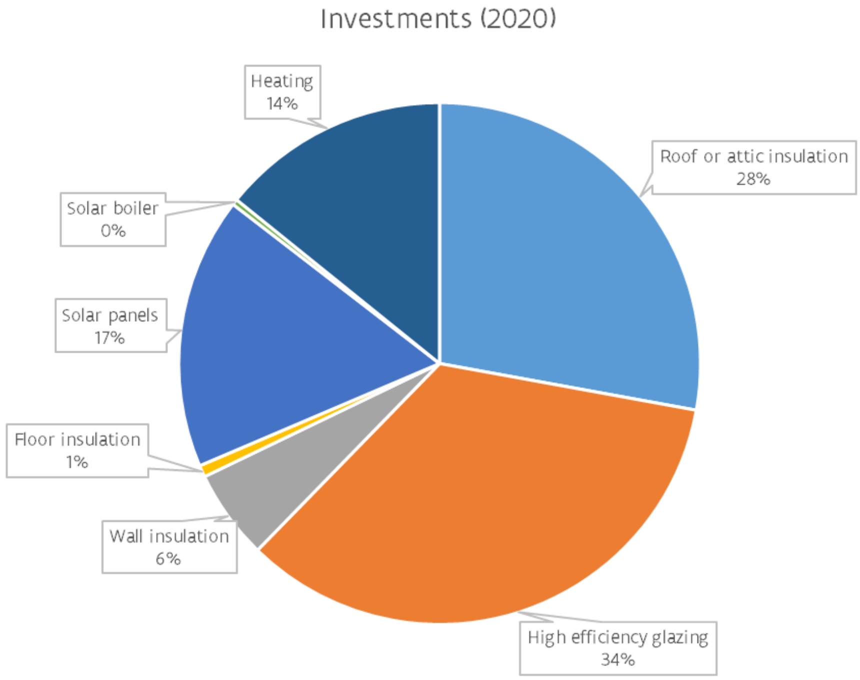


Pollution prevention and control (incl. circular economy)

	Number of supported projects
Flanders Innovation & Entrepreneurship	126
Circulair Werk(t)	20

Access to Education

2019

	Number of Schools	Number of Students	Average E-level[1]
Passive schools[2]	0	-	-
Non-passive schools	6	4,193	47

2020

	Number of Schools	Number of Students	Average E-level
Passive schools	0	-	-
Non-passive schools	3	1,521	48

Affordable housing

2019

VMSW[3]	Green investments	Social investments	No known E-level
Owner-occupied homes	1,334	405	283
Rental properties	4,711	1,836	13,783
Average E-level	46.7	60.7	-

[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)

VWF[4] investments	
Number of family members	Number of families
1	448
2	317
3	447
4	461
5	372
6	190
7	69
8	19
9	14
10	3
11	2
12	1

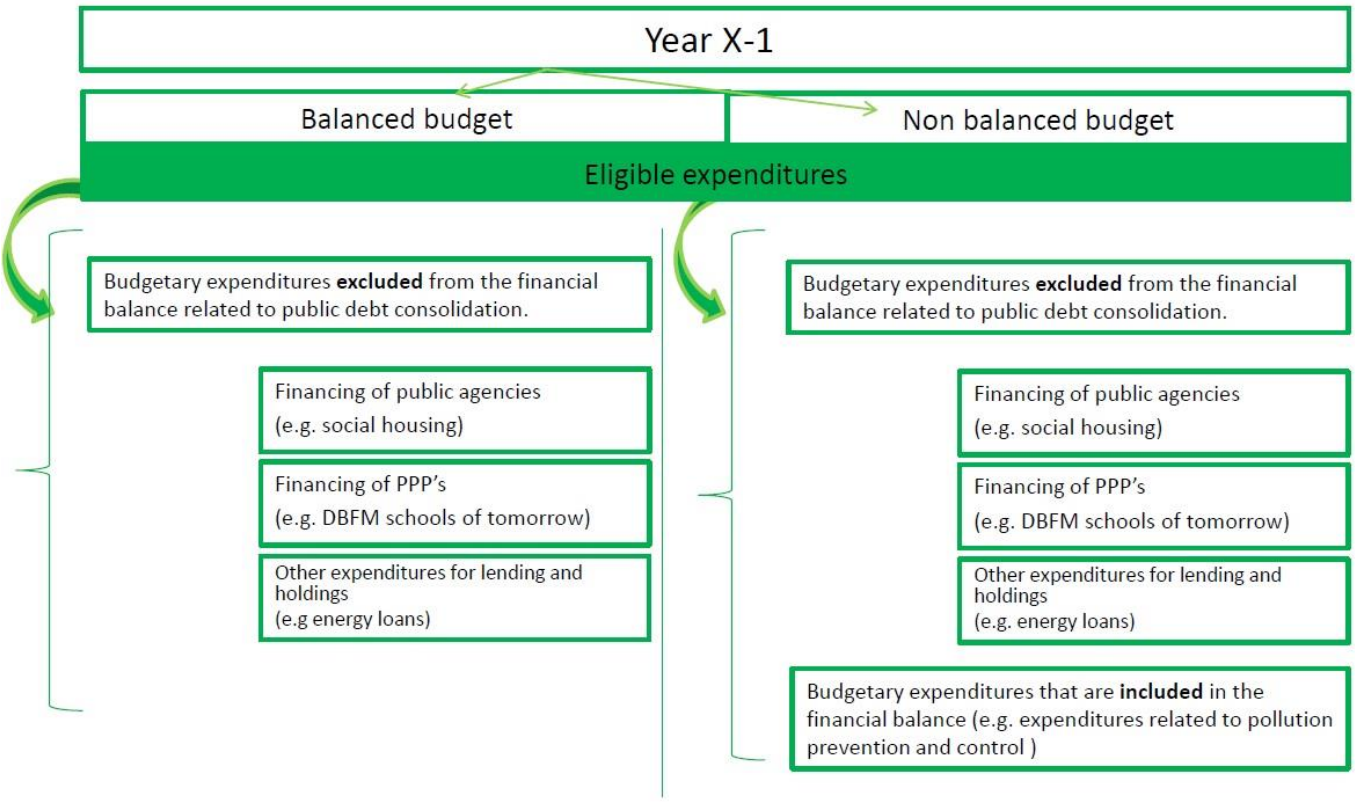
2020

VMSW	Green investments	Social investments	No known E-level
Owner-occupied homes	429	-	-
Rental properties	1,814	-	-
Average E-level	35.8	-	-

[4] 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 (Year X-1) followed by Flanders' expenditures of the year of issuance (Year X).

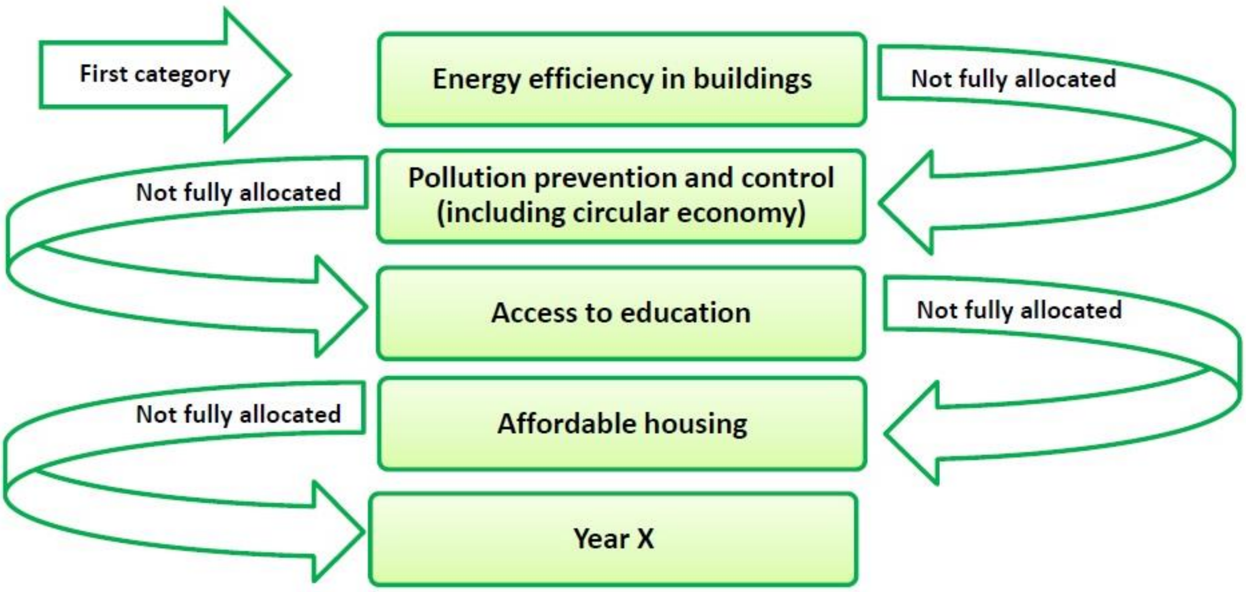
The eligible expenditures are selected depending on Flanders' budgetary situation:

- If year X-1 has a balanced budget in ESA (European System of Accounts) terms, this shows that there are sufficient ESA revenues to finance the ESA expenditures. Consequently, only ESA expenditures excluded from the financial balance related to the consolidated public debt are eligible since projects cannot be financed twice.
- If the budget of year X-1 is a non-balanced budget in ESA terms, this indicates that Flanders received insufficient revenues to finance the expenditures which leaves room to partially finance certain expenditures with debt. Consequently, also expenditures included in the financial balance related to the consolidated public debt become eligible.

The expenditures excluded from the financial balance are not considered into the ESA result of Flanders according to the ESA 2010 rules. These eligible expenditures are for example expenditures for the financing of public agencies (e.g. social housing), PPP[5]-projects (e.g. DBFM[6] schools of tomorrow) and other expenditures for lendings 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. For the 2020 allocation, the committee included members of VMSW (social housing), Agion (Agency for School Infrastructure), VEA (Flemish Energy Agency), Circular Flanders and the department of Finance and Budget. The composition of the committee may change for future issues.

The following priority has been decided to allocate the proceeds to the different categories in year X-1:



The proceeds of this sustainability bond are allocated to the following four categories from the framework: *Energy Efficiency in Buildings*, Pollution prevention and control (including circular economy), *Access to Education* and *Affordable Housing*. As in 2019 the budget was balanced, expenditures related to *Pollution prevention and control (including circular economy)* were not eligible for 2019. Since the budget of 2020 was

[5] PPP = Public-Private Partnerships
[6] DBFM = Design, Build, Finance and Maintenance

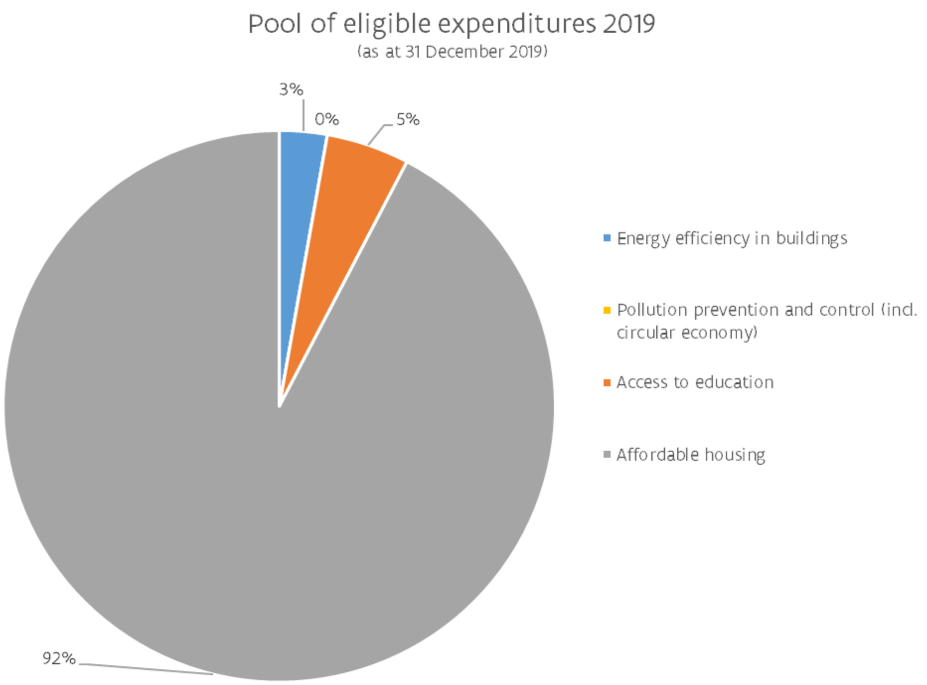
not balanced, the expenditures related to *Pollution prevention and control (including circular economy)* were eligible for 2020.

We attempt to allocate the proceeds of the bond as optimal as possible. Partially funding a project or transferring small residual amounts to the next year is not desirable. Therefore, the final projects will potentially be selected based on the amount of funding versus the residual amount to be allocated.

Allocation

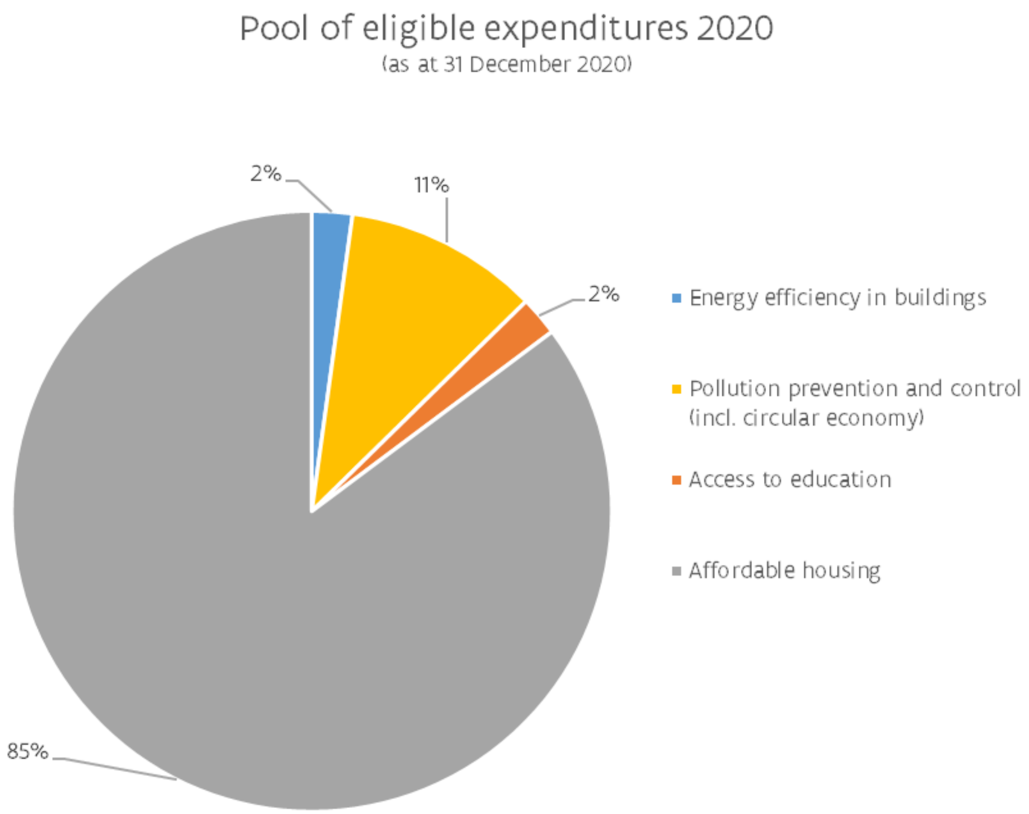
2019:

In EUR m	Pool of eligible expenditures
Energy efficiency in buildings	31.14
Access to Education	54.20
Affordable housing	1,029.49
Pollution prevention and control (incl. circular economy)	-
Total	1,114.84



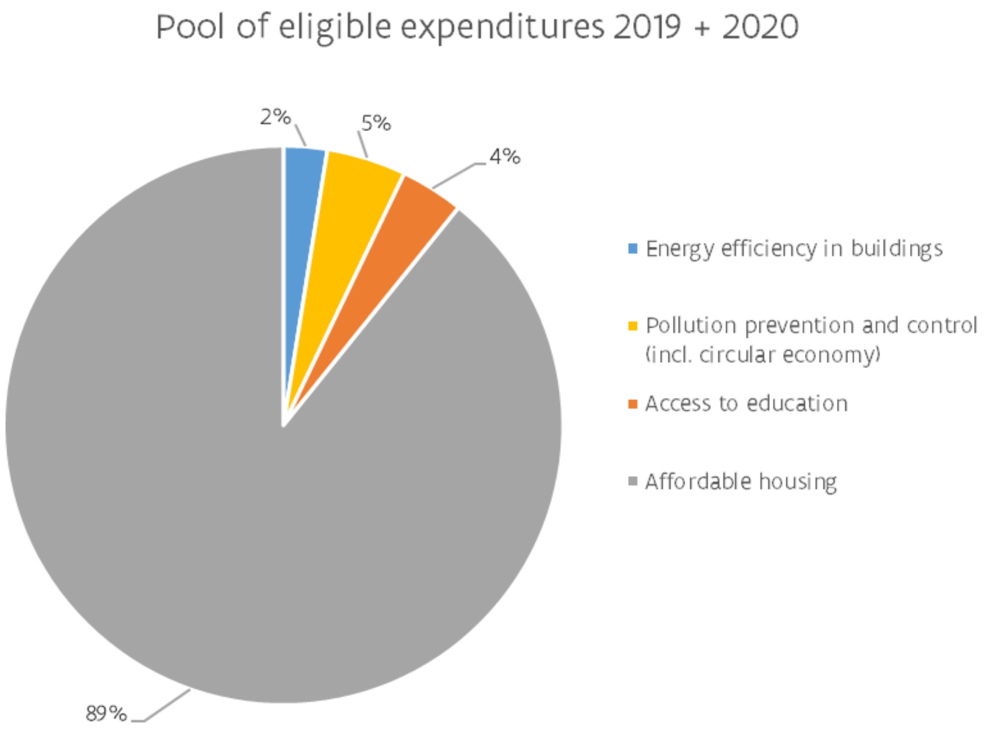
2020:

In EUR m	Pool of eligible expenditures
Energy efficiency in buildings	18.92
Pollution prevention and control (incl. circular economy)	91.12
Access to Education	18.43
Affordable housing	740.25
Total	**868.73**



2019 & 2020:

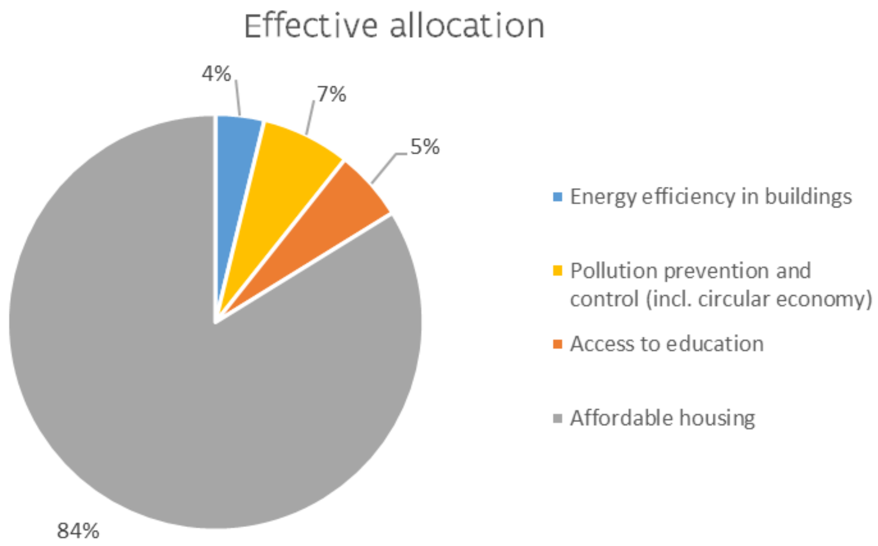
In EUR m	Pool of eligible expenditures
Energy efficiency in buildings	50.07
Pollution prevention and control (incl. circular economy)	91.12
Access to Education	72.64
Affordable housing	1,769.74
Total	1,983.57



Since 2019 had a balanced budget, expenditures in *Pollution prevention and control (incl. circular economy)* were not eligible. The total amount of eligible expenditures in 2019 was not sufficient, therefore the eligible expenditures of 2020 were also taken into account. Since 2020 had a non-balanced budget, expenditures in *Pollution prevention and control (incl. circular economy)* were eligible for this year. The total amount of eligible expenditures was 1,983.57 million euros. The largest part of this pool consists of the *Affordable housing* category (89%), followed by the category *Pollution prevention and control (incl. circular economy)* (5%), *Access to education* (4%) and lastly *Energy efficiency in buildings* (2%).

In December 2021, the Sustainability Bond Committee approved the following effective allocation:

In EUR m	Effective allocation
Energy efficiency in buildings	50.07
Pollution prevention and control (incl. circular economy)	91.12
Access to Education	72.64
Affordable housing	1,106.19
Total	1,320.01



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

There are currently no proceeds allocated to the Fund that was set up to help "emergency buyers". These proceeds will probably become eligible from next year on.

Regarding the financing of *Energy loans*, Flanders prioritizes projects that improve the shell of buildings and contribute to the reduction of energy loss. Examples of these investments are insulation and high-efficiency glazing. Secondly, Flanders looks at projects that provide buildings with energy efficient equipment, such as economic 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 audit is ranked last.

As mentioned in the framework, everybody could benefit from the renovation loan until the end of 2018 but vulnerable low-income households had priority as reflected in the applicable interest rate. Since 2019 only non-commercial legal entities and cooperative companies (till the end of 2019) and vulnerable low-income households can benefit from the renovation loan. Vulnerable groups, the so-called "priority group", currently benefit from a zero-interest rate.

Effective Allocation

For the sustainability bond issued in April 2020, 50,066,580 euros were allocated to the category *Energy efficiency in buildings*, which is approximately 3.79% of the total nominal amount of this sustainability bond.

Impact[7]

<u>Allocated proceeds 2019</u>

For 2019, 31,141,731 euros were allocated to the category *Energy efficiency in buildings*. 3,483 energy loans were granted out of which 2,527 (72.6%) were granted to the priority group for a total of 22,328,885 euros.

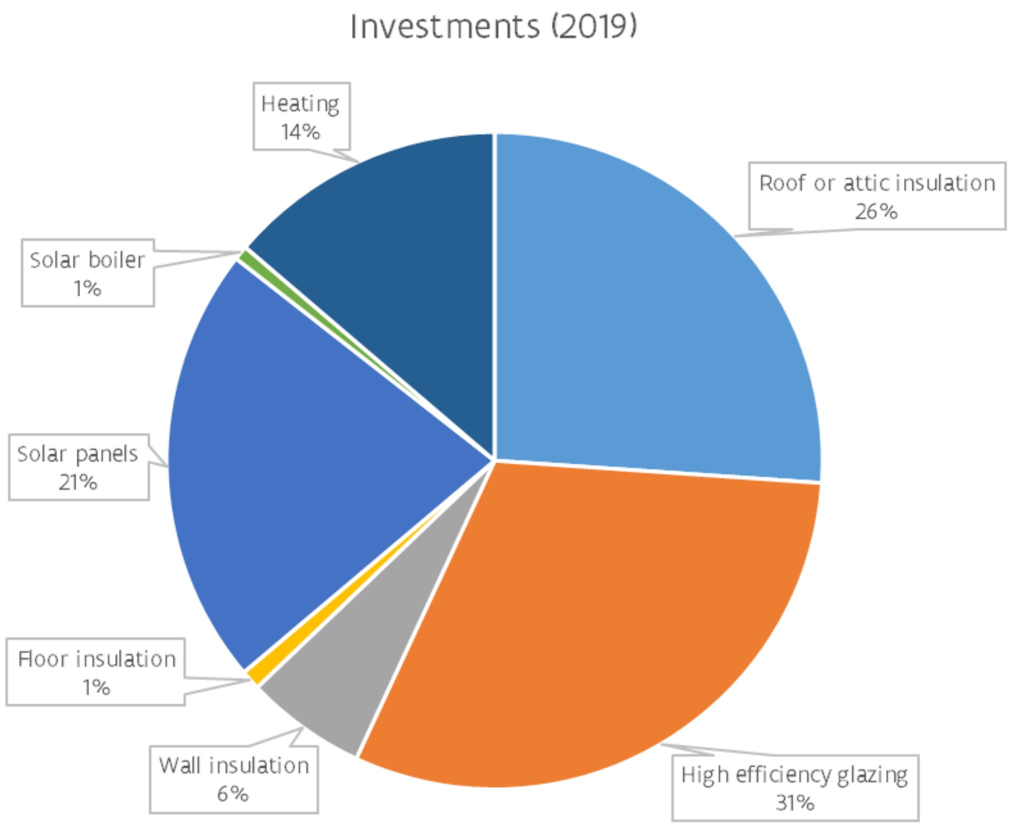
These energy loans resulted in energy savings of 2,351,025 euro[8] and resulted in 2,444 ton avoided CO_2 emissions[9].

The following figures give an overview of the most common investments financed with the energy loans in 2019.

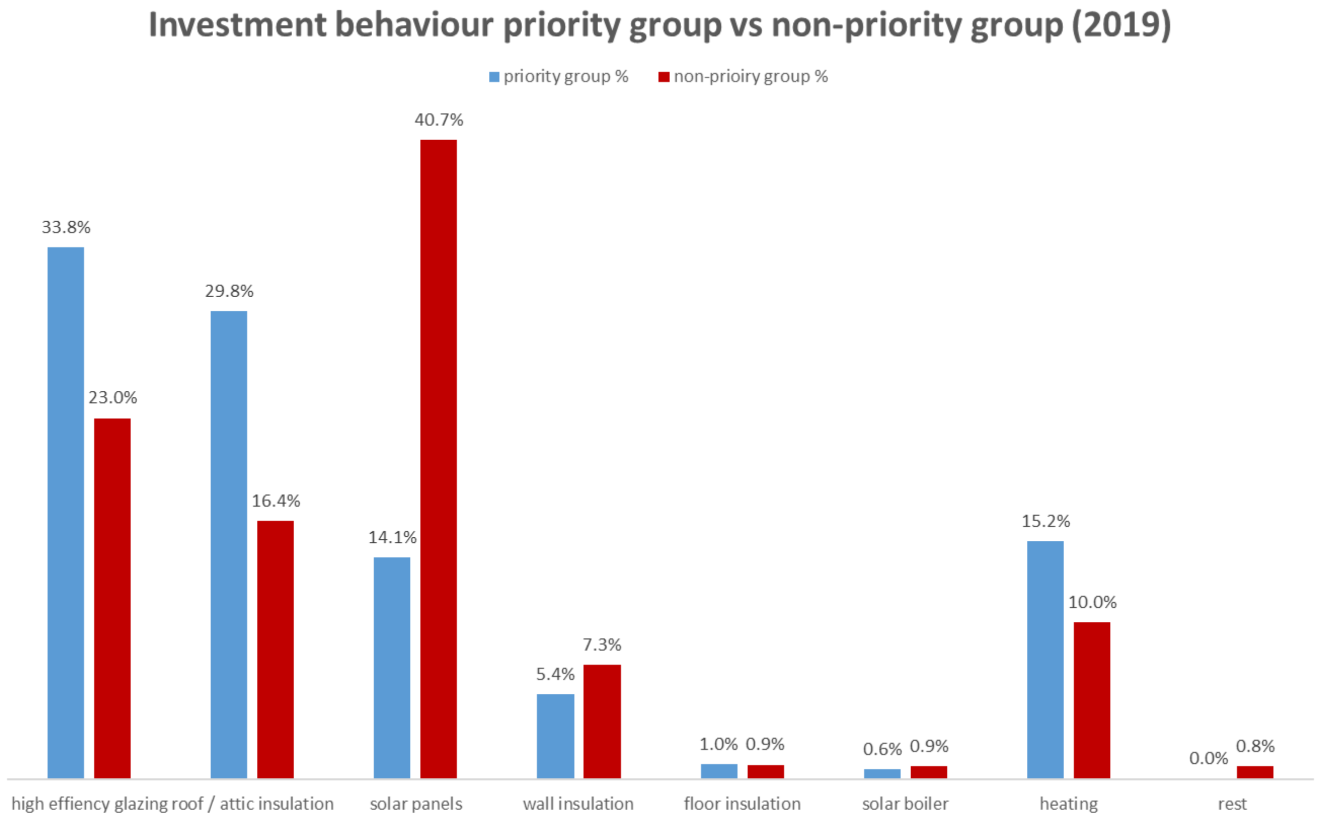
[7] Based on information provided by VEA (Flemish Energy Agency)

[8] This is calculated based on an average cost of natural gas and electricity multiplied by an estimate of the magnitude of reduced consumption as a result of the various investments.

[9] Computed using a monitoring tool developed by the Flemish provinces: https://www.provincieantwerpen.be/aanbod/dlm/klimaatneutrale-organisatie-2020/ondersteuningspakketten/monitoringtool-klimaatacties.html



The most popular investment is high efficiency glazing (31%), followed by roof or attic insulation (26%) and solar panels (21%).



The graph above compares the split in investment types between the priority and the non-priority group for the investments financed with energy loans. The priority group invested in the so-called priority interventions, such as high efficiency glazing (33.8% of the investments for the priority group versus 23.0% for the non-priority group), followed by roof or attic insulation (29.8% versus 16.4%) and heating (15.2% vs 10.0%).

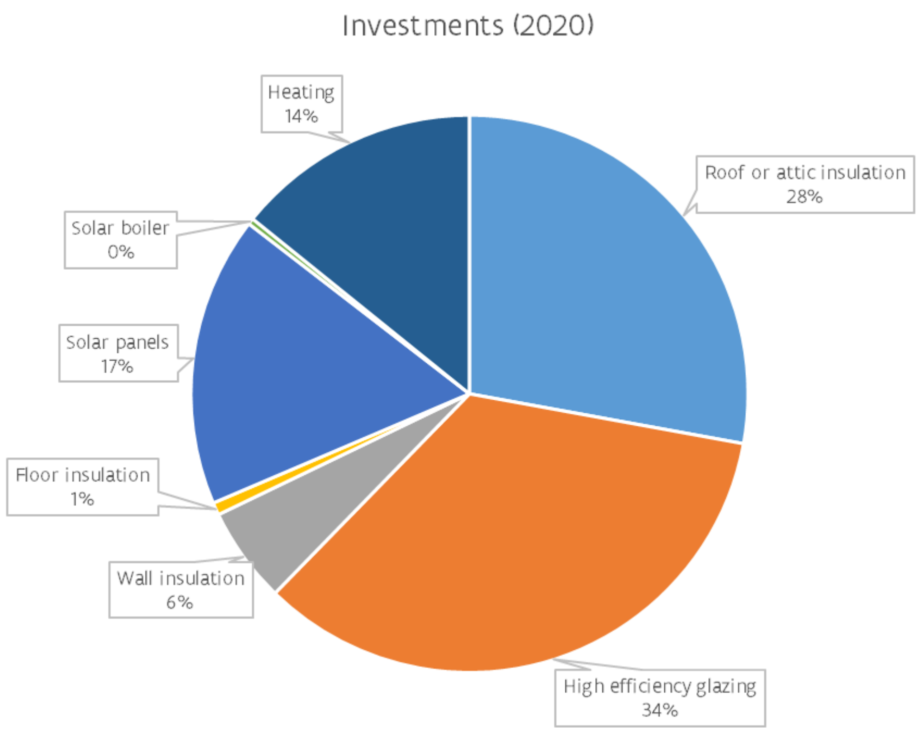
The investments in solar panels are the most notable difference between the two different groups. Of the investments made by the priority group, 14.1% were investments in solar panels compared to 40.7% for the non-priority group.

Allocated proceeds 2020

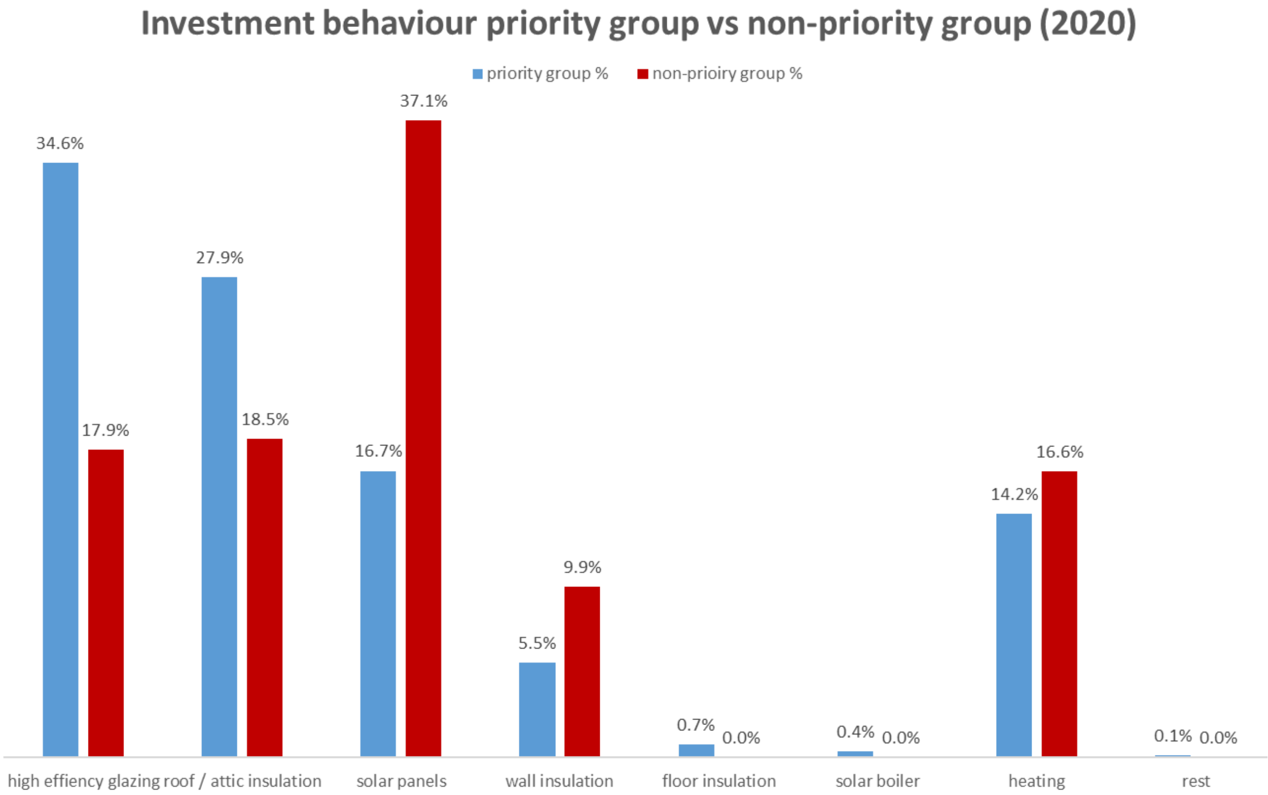
For 2020, 18,924,849 euros were allocated to the category *Energy efficiency in buildings*. 2,051 energy loans were granted out of which 2,039 (99.4%) were granted to the priority group for a total of 18,753,535 euros.

These energy loans resulted in energy savings of 1,384,425 euro and resulted in 1,426 ton avoided CO_2 emissions.

The following figures give an overview of the most common investments financed with the energy loans in 2020.



The most popular investment is high efficiency glazing (34%), followed by roof or attic insulation (28%) and solar panels (17%).



The graph above compares the split in investment types between the priority and the non-priority group for the investments financed with energy loans. The priority group invested mostly in the so-called priority interventions, such as high efficiency glazing (34.6% of the investments for the priority group versus 17.9% for the non-priority group), followed by roof or attic insulation (27.9% versus 18.5%) and solar panels (16.7% vs 37.1%).

The investments in solar panels are the most notable difference between the two different groups. Of the investments made by the priority group, 16.7% were investments in solar panels compared to 37.1% for the non-priority group.

Pollution prevention and control (incl. circular economy)

Selection Methodology

Which projects are eligible?

- Flanders Innovation & Entrepreneurship
- Circulair Werk(t)

Effective allocation

For the sustainability bond issued in April 2020, 91.12 million euros were allocated to the category *Pollution prevention and control (incl. circular economy)*, which is approximately 6.90% of the total nominal amount of this sustainability bond.

Impact

Flanders Innovation & Entrepreneurship[10]

Flanders Innovation & Entrepreneurship supports yearly 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 2020, Flanders Innovation & Entrepreneurship supported 93 projects for the circular economy theme for the total amount of 58 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.

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

Another 33 projects within business economic aid were supported for the amount of 33 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.

Circulair Werk(t): Oproep 520[11]

In order to boost social and circular entrepreneurship at 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 can 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.

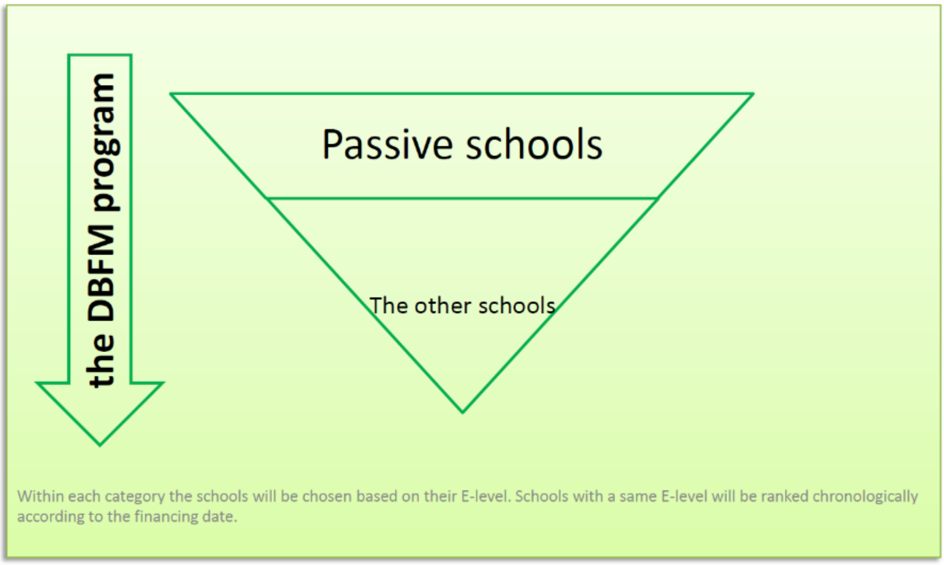
The division ESF & Sustainable Entrepreneurship and the division Social Economy & Workable Work of the Work & Social Economy Department, together with Circular Flanders, will support these local circular hubs financially for a period of 2 years.

For the ESF-call 520 Circulair Werk(t), Circular Flanders subsidized in 2020 20 parties for 120 thousand euros for phase 1.

[11] Circulair werk(t)! | ESF (esf-vlaanderen.be)

Access to education

Selection Methodology



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

Effective allocation

A total of 72,638,918 euros was allocated to the category *Access to Education*, which is approximately 5.50% of the nominal amount of the bond.

Impact

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

For 2019, 54,204,479 euros were allocated to the category *Access to education*. The 6 selected schools provide space for a total of 4,193 students. These schools have an average E-level of 47.

For 2020, 18,434,439 euros were allocated to the category *Access to education.* The 3 selected schools provide space for a total of 1,521 students. These schools have an average E-level of 48.

Affordable Housing

Selection Methodology

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)

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.

The projects of the category *Affordable Housing* are ranked based on the E-level of the buildings. For new constructions and renovations, the projected E-level is used while for purchases, the E-level from the energy performance certificate is used. If a project consists of different units, each with an individual E-level, the average E-level is considered. Projects for which all the buildings have an E-level equal to and below 60 are considered energy efficient. Projects which have one or more buildings above E-level 60 or an unknown E-level are considered as having social benefit. Priority is given to the energy efficient projects. Furthermore, buildings with the same E-level are ranked chronologically according to their financing date. If the E-level is unknown, the buildings are put at the end of the list and ranked chronologically according to their financing date.

Effective allocation

1,106,187,230 euros were allocated to the category *Affordable housing*. The selected projects are projects from both VMSW as VWF.

For these housing projects, a distinction is made between so-called green investments and social investments. Green investments include all projects with an E-level equal or below 60. If the E-level was not known for all the buildings of the project or not all the buildings of the project had an E-level equal or below 60, the investments are considered as social.

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

428,445,810 euros were allocated to the so-called green VMSW investments (351,752,029 euros in 2019 and 76,693,781 euros in 2020), while 270,511,926 euros were allocated to the social VMSW investments. For 75.32% (203,748,790 euro) of these social VMSW investments, there was no known E-level. 407,229,494 euros were allocated to VWF investments.

Impact

Green investments VMSW 2019

Green investments	
Owner-occupied homes	1,334
Rental properties	4,711
Average E-level	46.7

The projects that fall within this scope, have an average E-level of 46.7. Of these projects, 77.9% were rental properties and 22.1% were owner-occupied homes.

E-level	Owner-occupied homes	Rental properties
below 15	4	0
[15 - 20[	27	18
[20 - 25[	0	0
[25 – 30[	30	159
[30 – 35[	6	221
[35 – 40[	27	504
[40 – 45[	176	765
[45 – 50[	425	1,155
[50 – 55[	521	1,660
[55 – 60[	118	229

Green investments VMSW 2020

Green investments	
Owner-occupied homes	429
Rental properties	1,814
Average E-level	35.8

The projects that fall within this scope, have an average E-level of 35.8. Of these projects, 80.9% were rental properties and 19.1% were owner-occupied homes.

E-level	Owner-occupied homes	Rental properties
below 15	0	0
[15 - 20[	27	18
[20 - 25[	0	33
[25 – 30[	75	313
[30 – 35[	86	201
[35 – 40[	115	657
[40 – 45[	126	592
[45 – 50[	-	-
[50 – 55[	-	-
[55 – 60[	-	-

<u>Social investments VMSW with known E-level (2019)</u>

Social investments	
Owner-occupied homes	405
Rental properties	1,836
Average E-level	60.7

As illustrated in the table below, some social investments also have an E-level below 60. This means that within all these projects, one or more buildings have an E-level above 60, but the total project has an average E-level below 60. The average E-level of these social projects was 60.7. Of these projects, 81.9% were rental properties and 18.1% were owner-occupied homes.

E-level	Owner-occupied homes	Rental properties
[50 – 55[	25	368
[55 – 60[	123	459
[60 – 65[	186	627
[65 – 70[	71	382

<u>Social investments with no known E-level (2019)</u>

These investments include projects from both VMSW and VWF.

VMSW investments	
Owner-occupied homes	283
Rental properties	13,783

Of these VMSW projects with no known E-level, 98% were rental properties and 2% were owner-occupied homes.

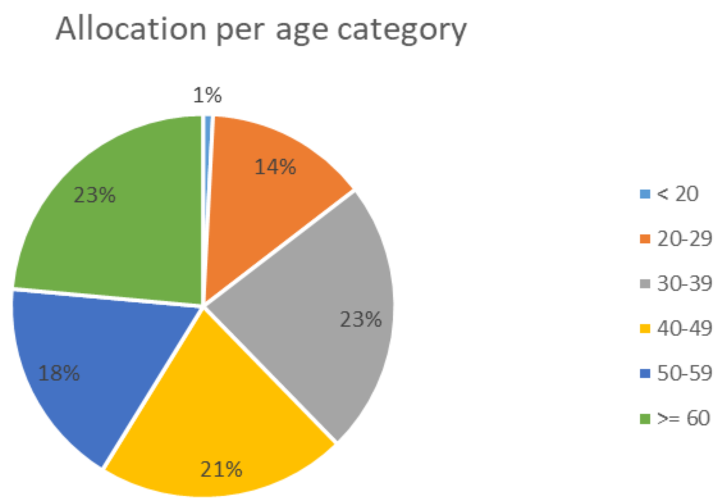
VWF investments		
Number of family members		Total amount
1	448	€ 70,894,097
2	317	€ 52,120,980
3	447	€ 76,775,410
4	461	€ 81,882,004
5	372	€ 68,485,905
6	190	€ 35,095,509
7	69	€ 14,201,470
8	19	€ 3,316,590
9	14	€ 3,004,530
10	3	€ 775,000
11	2	€ 385,000
12	1	€ 293,000

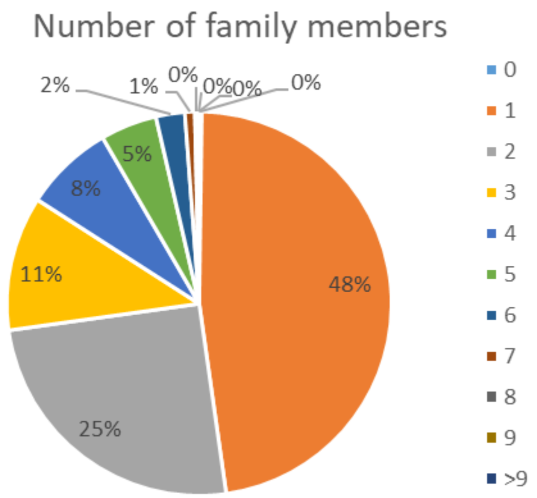
2,343 VWF investments were selected for a total of 407,229,494 euros. A total of 8,092 persons have benefited from these selected VWF investments.

VMSW statistics[12]

The three following graphs and figures give a global overview of the tenants supported by VMSW at the end of 2019. There were 8,225 newly allocated tenants on a total of 145,212 existing tenants.

Allocation per age category	
< 20	68
20-29	1,132
30-39	1,900
40-49	1,736
50-59	1,453
>= 60	1,936

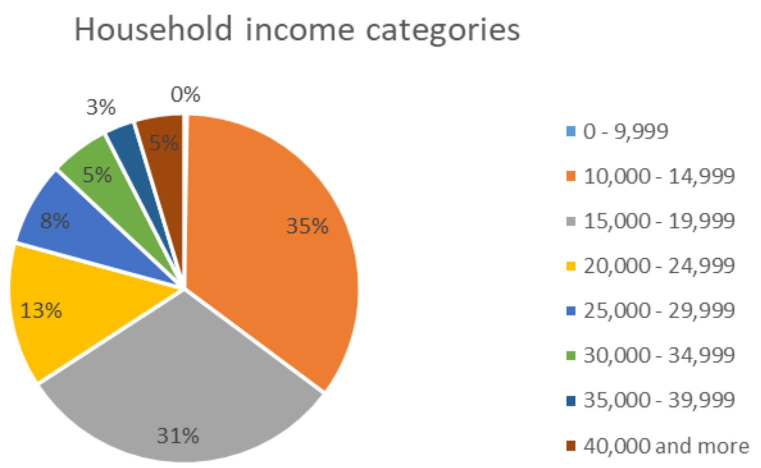




Number of family members (31/12/2019)	
0	324
1	69,015
2	36,354
3	16,440
4	10,927
5	6,896
6	3,530
7	1,217
8	371
9	100
>9	38

[12] No specific statistics concerning the following information were available for the selected projects.

Household income[13] categories In EUR (31/12/2019)	
0	334
0.01 – 2,499	5
2,500 – 4,999	5
5,000 – 7,499	12
7,500 – 9,999	16
10,000 – 12,499	15,283
12,500 – 14,999	35,481
15,000 – 17,499	25,724
17,500 – 19,999	18,701
20,000 – 22,499	11,676
22,500 – 24,999	7,834
25,000 – 27,499	6,000
27,500 – 29,999	5,245
30,000 – 32,499	4,525
32,500 – 34,999	3,449
35,000 – 37,499	2,374
37,500 – 39,999	1,800
40,000 and more	6,748



In 2019, VMSW delivered a total of 2,511 residences, of which 1,937 were rented and 574 purchased.

Delivered residences	
Rental sector	1,937
Purchasing sector	574
Total	2,511

The following table gives an overview of the renovation of the social patrimony in 2019.

SOCIAL PATRIMONY RENOVATION (cost renovation higher than 15,000 euros per residence)	
Number of residences	
Preliminary draft	13
Award	966
Delivery	1,702
Number of projects	
Preliminary draft	2
Award	38

[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).

Delivery	77
Total net cost	
Preliminary draft	€ 1,184,940
Award	€ 114,817,765
Delivery	€ 135,289,808
Total investment (allocations)	
Award	€ 143,992,087
Delivery	€ 171,218,286

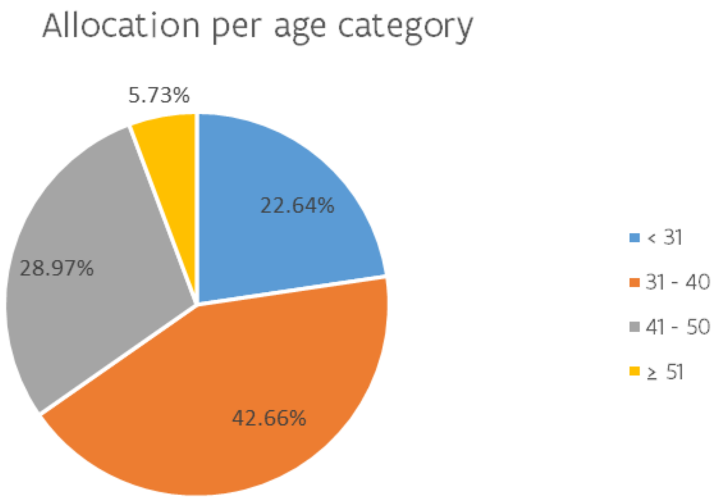
The EPB-requirements for housing for the period 2019 are:

- For construction: maximum E40 per housing unit
- For major energetic renovation: maximum E90 per housing unit

VWF statistics[14]

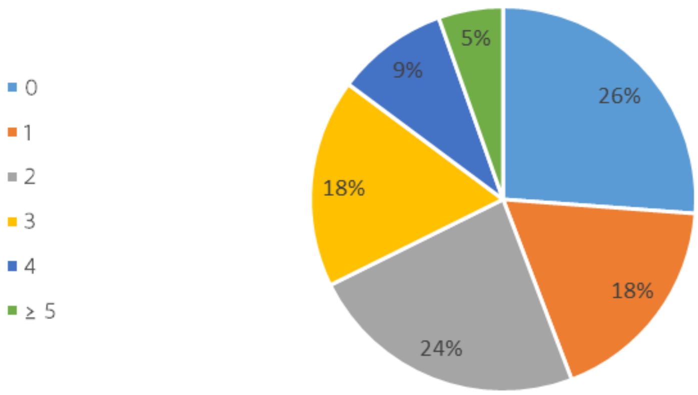
The following graphs and figures give a global overview of the new borrowers supported by VWF at the end of 2019.

Allocation per age category	
< 31	22.64%
31 – 40	42.66%
41 – 50	28.97%
≥ 51	5.73%



[14] No specific statistics concerning the following information were available for the selected 2.343 projects.

Number of dependents



Number of dependents	Absolute figures	%
0	608	26.17
1	419	18.04
2	545	23.46
3	407	17.52
4	218	9.38
≥ 5	126	5.43
Total	2,323	100.00

Income categories (in EUR)	Number of loans	%	Average number of people at home	Average net family income (in EUR)
≤ 1,500	70	3.01%	1.50	1,346.56
1,500.01 – 2,000.00	648	27.90%	1.88	1,761.78
2,000.01 – 2,500.00	587	25.27%	3.39	2,239.31
2,500.01 – 3,000.00	450	19.37%	4.21	2,735.69
> 3,000.00	568	24.45%	4.96	3,555.14

Monthly net family income categories