Sustainability Bond Reporting – EMTN 2019

Introduction

In April 2019 Flanders issued its second sustainability bond followed by a tap of 250 million euros in May 2020 which brought the total amount issued to 1 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, promote affordable housing and access to education. In the future, Flanders will also finance initiatives in the circular economy.

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

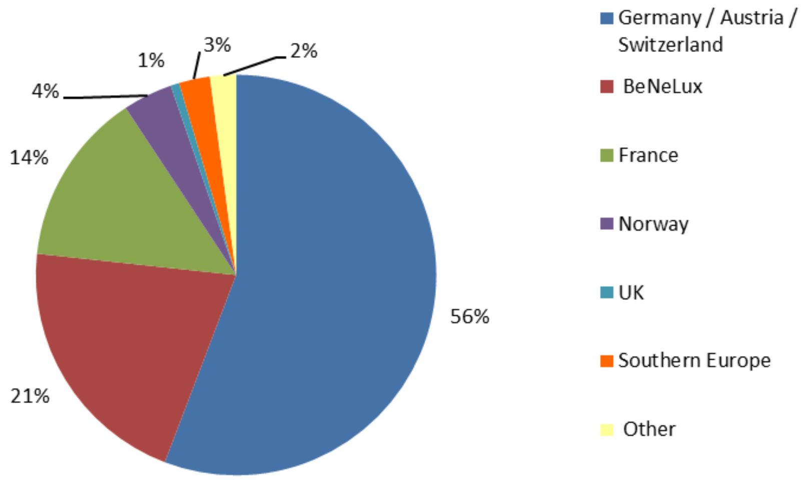
April 2019

Issue date	4 April 2019
Amount	EUR 750 million
Maturity	11 April 2044
Rating	Aa2 (Moody's)
Coupon	1.500%
Reoffer Yield	1.567%
Second Party Opinion	Sustainalytics
# Investors	117
# Countries	14

May 2020

Issue date	5 May 2020
Amount	EUR 250 million
Maturity	11 April 2044
Coupon	1.500%
Reoffer Yield	0.855%
Second Party Opinion	Sustainalytics

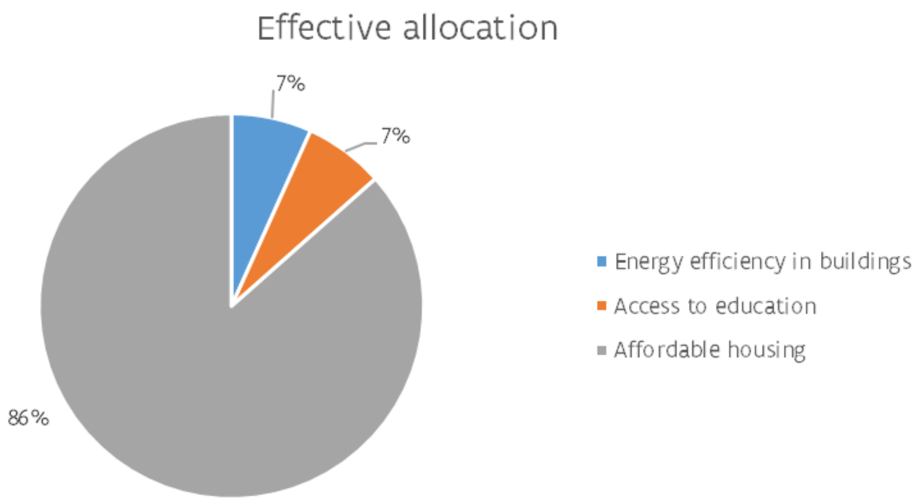
<u>Investors split by geography</u>
<u>(April 2019 issuance only)</u>



Summary

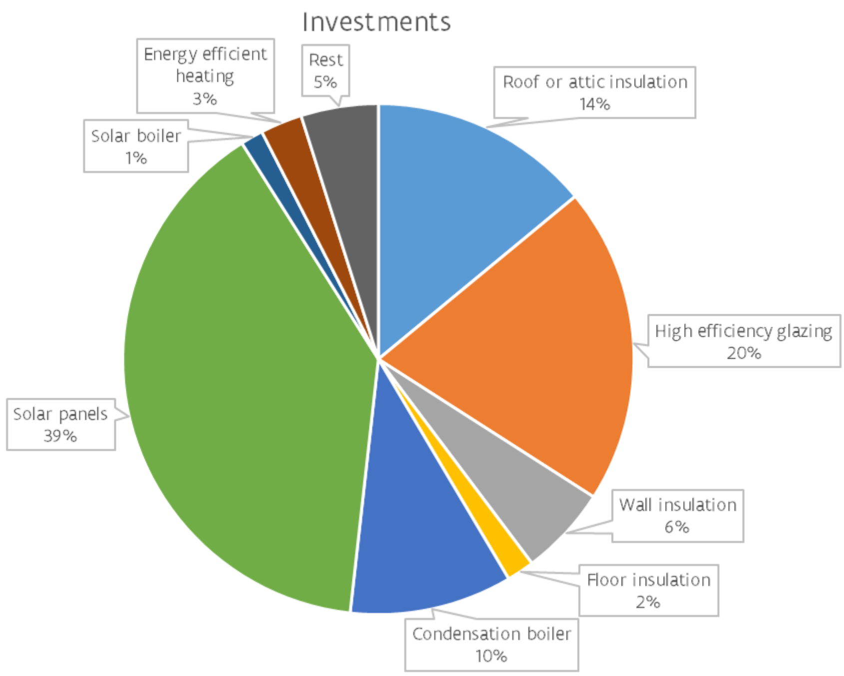
Allocation:

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



Key fact and figures for each category:

Energy efficiency in buildings



Access to Education

	Number of Schools	Number of Students	Average E-level[1]
Passive schools[2]	1	4,000	52.0
Non-passive schools	9	10,762	55.1

Affordable housing

VMSW[3]	Green investments	Social investments	No known E-level
Owner-occupied homes	1,694	814	463
Rental properties	5,401	3,110	19,067
Average E-level	47.0	61.0	-

VWF[4] investments	
Number of family members	Number of families
1	212
2	143
3	260
4	226
5	175
6	86
7	40
8	14
9	3
10	3
11	2

[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.

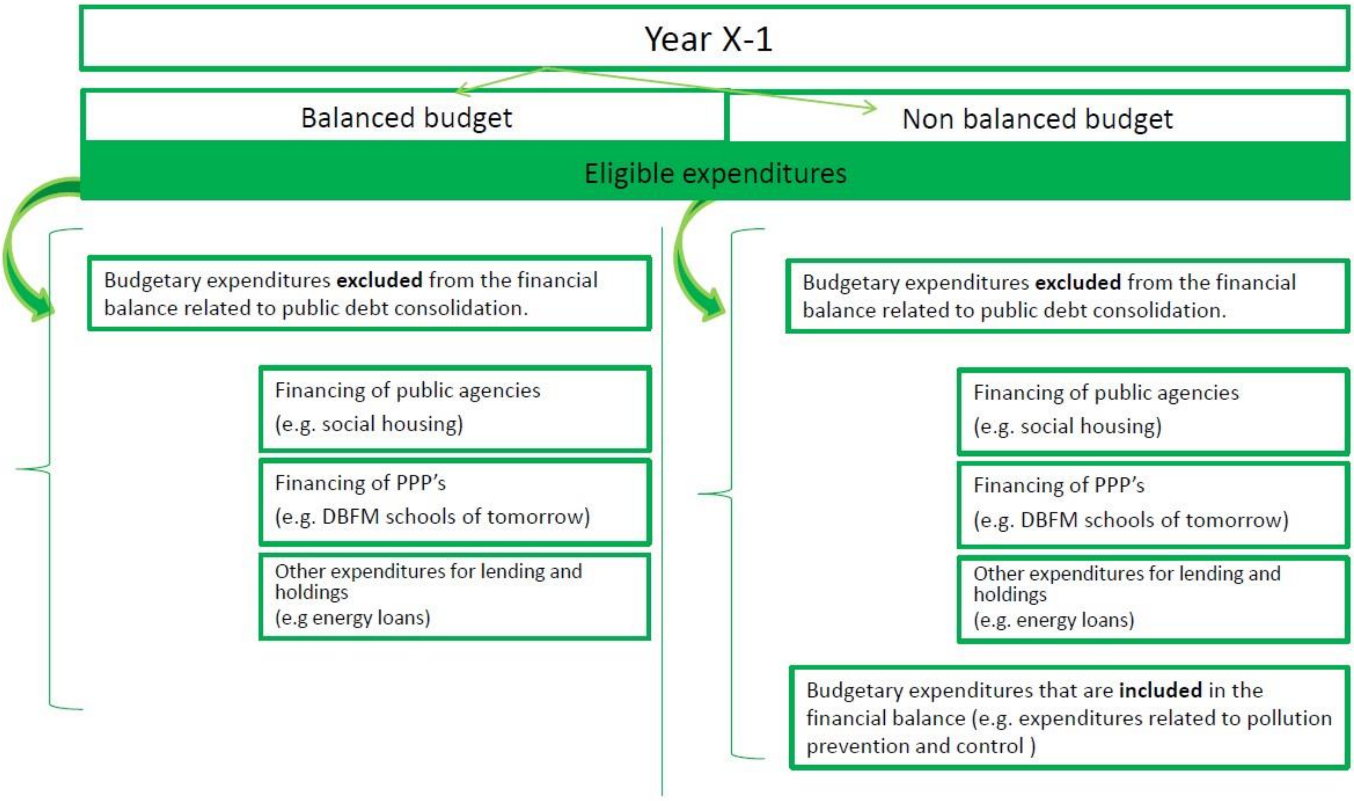
[2] A passive school is a very energy-efficient school building that has a comfortable indoor climate in both winter and summer with minimal energy consumption. By applying passive strategies in a well thought-out design, the heat losses and heat gains are in balance.

[3] VMSW = Vlaamse Maatschappij voor Sociaal Wonen (Flemish Social Housing Association)

[4] 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).

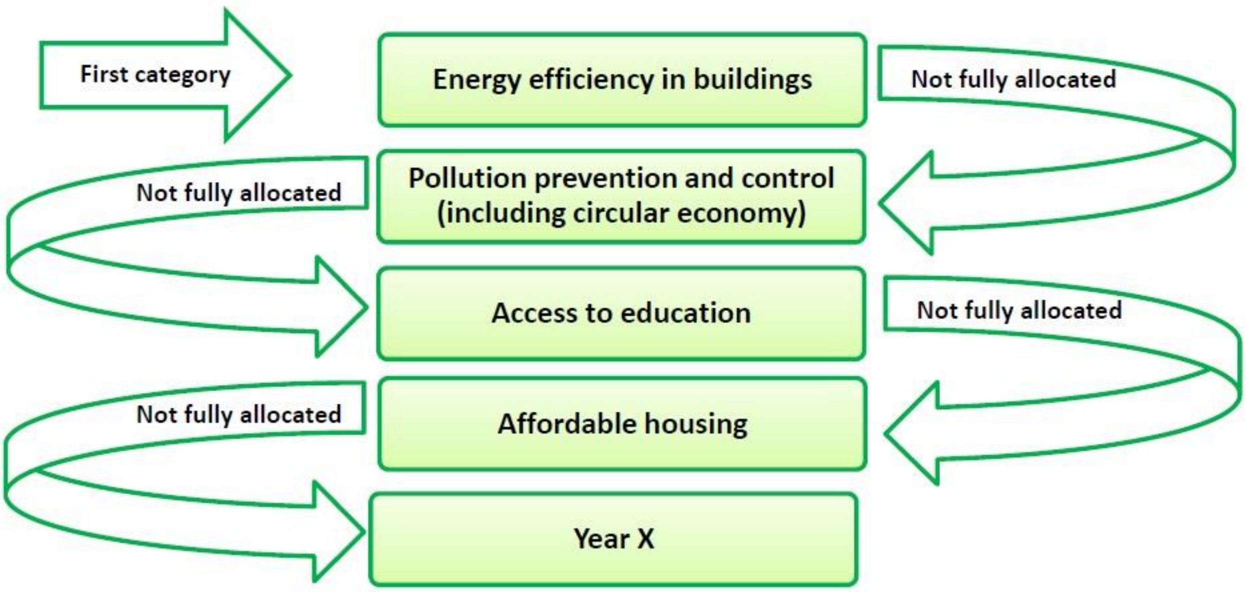
The eligible expenditures are selected depending on Flanders' budgetary situation:

- 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 voted by the Parliament.

A dedicated Sustainability Bond committee selects the eligible expenditures and approves the methodology used for the allocation. For the 2019 allocation, the committee included members of VMSW (social housing), Agion (Agency for School Infrastructure), VEA (Flemish Energy Agency) 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 three categories from the framework: *Energy Efficiency in Buildings*, *Access to Education* and *Affordable Housing*. As in 2018 the budget was balanced, expenditures related to *Pollution prevention and control (including circular economy)* were not eligible.

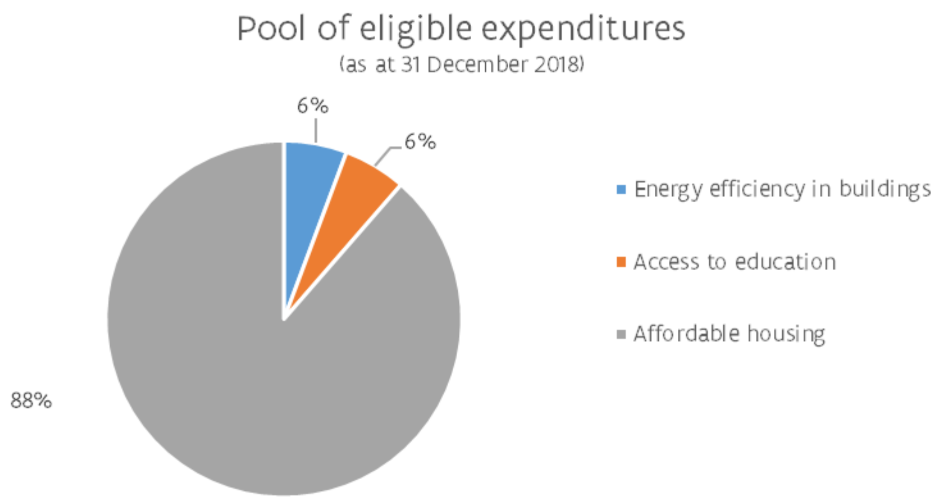
[5] PPP = Public-Private Partnerships
[6] DBFM = Design, Build, Finance and Maintain

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

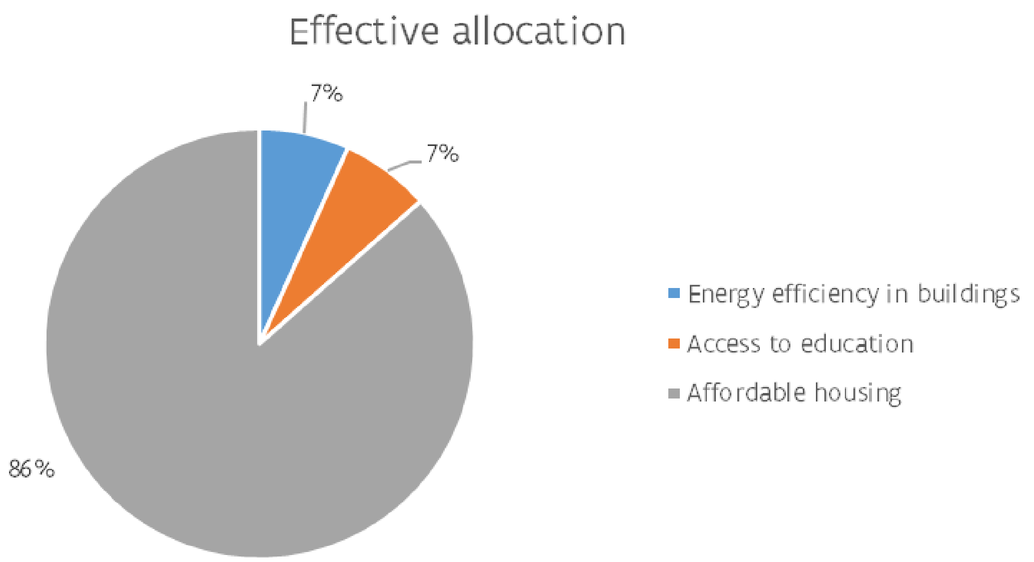
In EUR m	**Pool of eligible expenditures**
Energy efficiency in buildings	67.54
Access to Education	67.27
Affordable housing	1,045.82
Pollution prevention and control (incl. Circular economy)	-
Total	1,180.64

For the allocation of this sustainability bond, the total amount of eligible expenditures was 1,180.64 million euro. The largest part of this pool consists of the *Affordable housing* category (88%), followed by the category *Access to education* (6%) and *Energy efficiency in buildings* (6%). Since 2018 had a balanced budget, expenditures in *Pollution prevention and control (incl. Circular economy)* were not eligible.



On August 10th, 2020, the Sustainability Bond Committee approved the following effective allocation:

In EUR m	Effective allocation
Energy efficiency in buildings	67.54
Access to Education	67.27
Affordable housing	865.22
Pollution prevention and control (incl. Circular economy)	-
Total	1,000.03



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.

Since the Fund set up to help "emergency buyers" came into force in 2019, there are currently no proceeds allocated. These proceeds will 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 selected 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. Vulnerable groups, the so-called "priority group", currently benefit from a zero-interest rate.

Effective allocation

For the sustainability bond issued in April 2019 and the tap in May 2020, 67,543,639 euros were allocated to the category *Energy efficiency in buildings*, which is approximately 6.75% of the total nominal amount of this sustainability bond.

Impact[7]

For 2018, 7,362 energy loans were granted out of which 2,728 (37.1%) were granted to the priority group for a total of 22,876,574 euros.

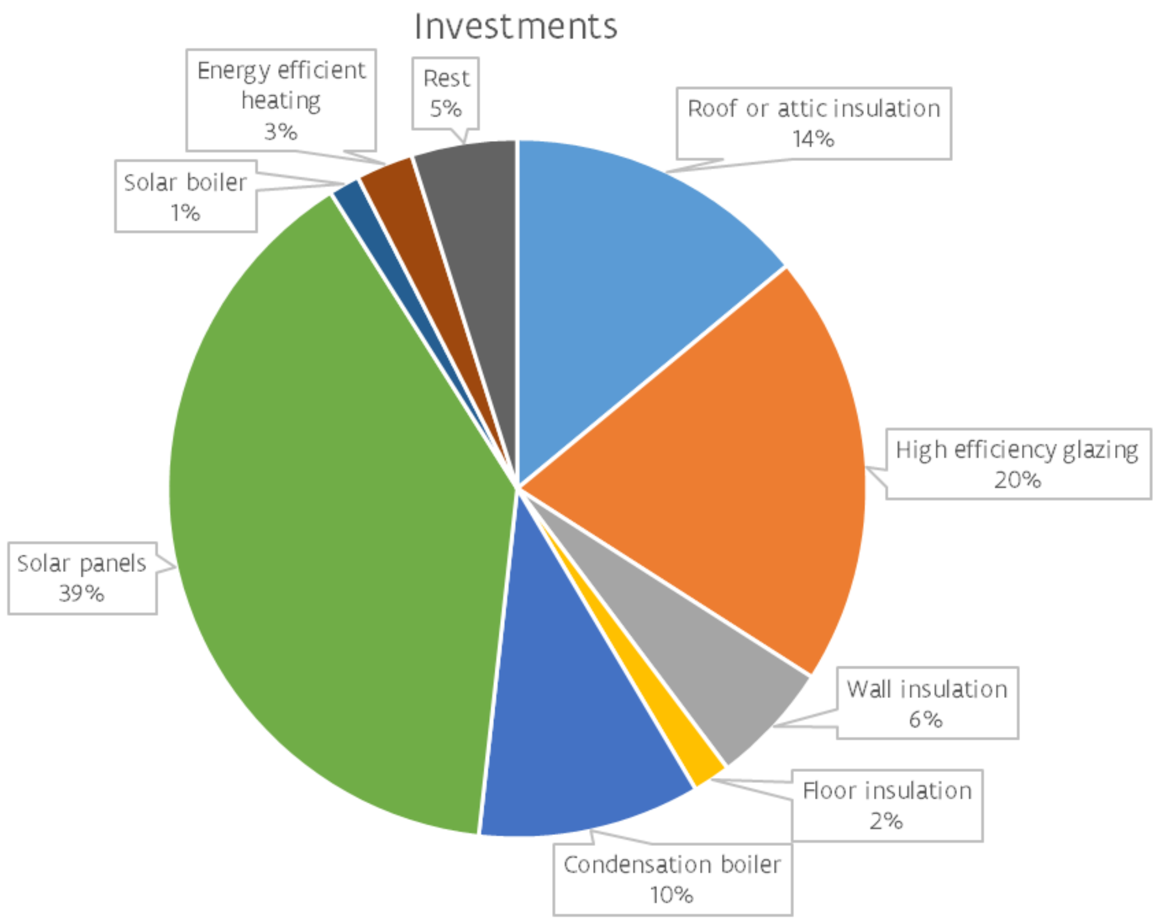
These energy loans resulted in energy savings of 4,969,350 euro[8] and resulted in 6,191 ton avoided CO_2 emissions[9].

The following figures give an overview of the most common investments financed with the energy loans in 2018.

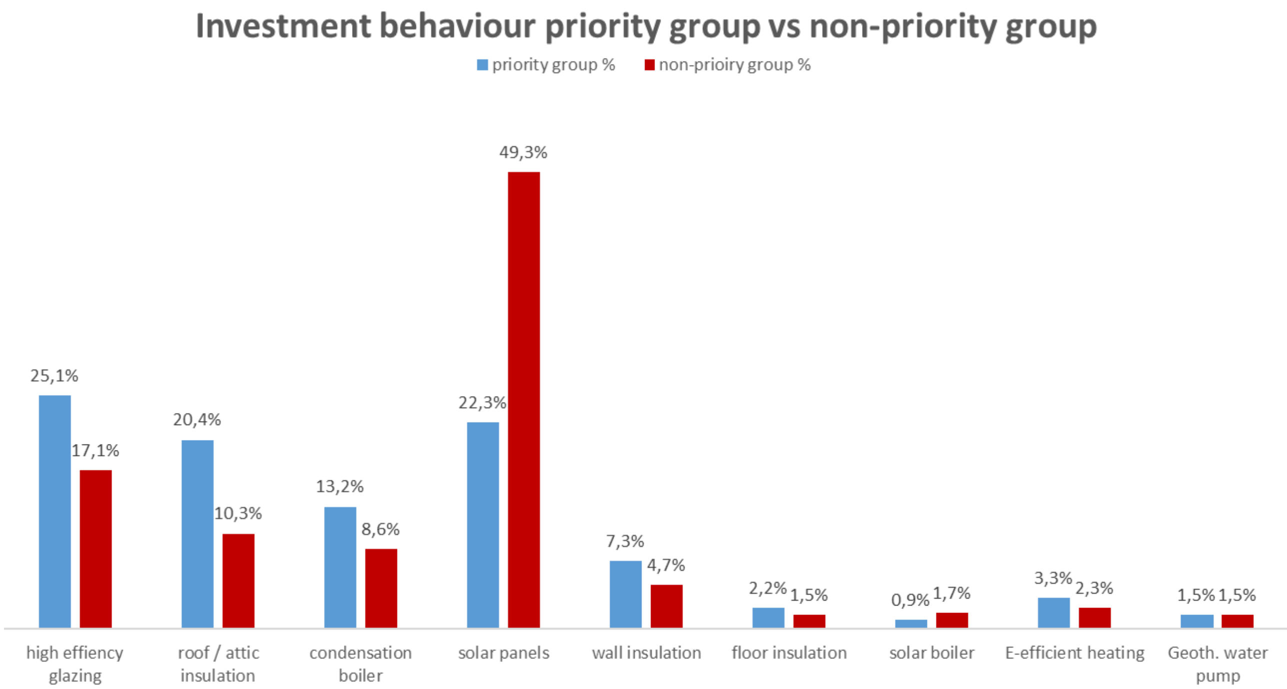
[7] Based on information provided by VEA (Flemish Energy Agency)

[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 solar panels (39%), followed by high efficiency glazing (20%) and roof or attic insulation (14%).

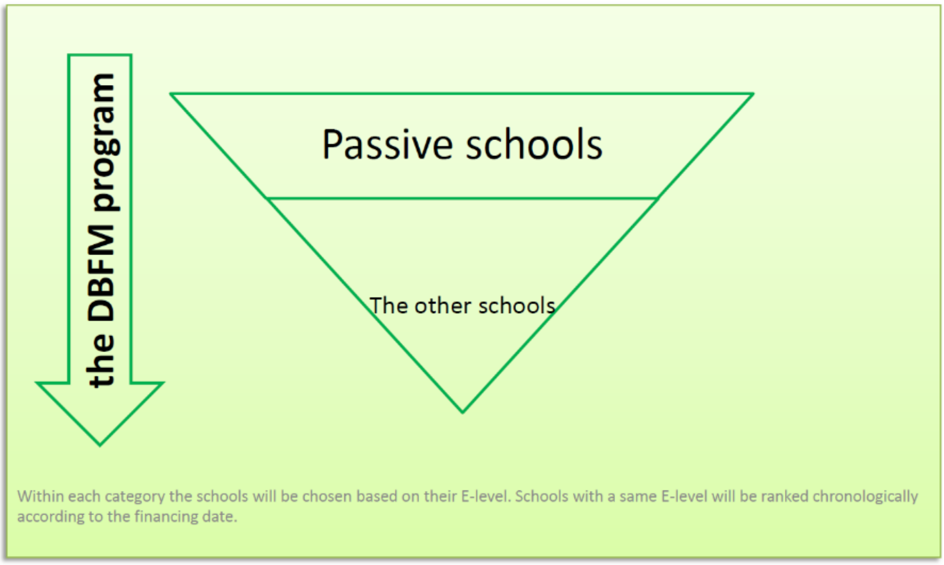


The graph above compares the split in investment types between the priority and the non-priority group for the investments financed with energy loans. The priority group invested in the so-called priority interventions, such as high efficiency glazing (25.1% of the investments for the priority group versus 17.1% for the non-priority group), followed by roof or attic insulation (20.4% versus 10.3%) and the condensation boiler (13.2% vs 8.6%).

The investments in solar panels are the most notable difference between the two different groups. Of the investments made by the priority group, 22.3% were investments in solar panels compared to 49.3% for the non-priority group. It is important to mention that the solar panels are also gaining popularity among the priority group compared to previous years (in 2017 10% of the investments).

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 67,271,011 euros was allocated to the category *Access to Education*, which is approximately 6.73% of the nominal amount of the bond. Within this category, 5,618,475 euros were allocated to passive schools.

Impact

For the allocation of this sustainability bond, Flanders selected one passive school, namely 'Bernarduscollege'. This passive school provides space to 4,000 students. As mentioned in the framework, the Decree of 7 December 2007 concerning energy performance in schools stipulates that these passive schools can have a maximum E-level of E55. As illustrated in the table below, Bernarduscollege meets this norm.

The other 9 selected (non-passive schools) provide space for a total of 10,762 students. These non-passive schools have an average E-level of 55.1.

Bernarduscollege - Oudenaarde

The total floor area of the new building is 3,848 m² and offers space to 4,000 students. It is filled in with classrooms and subject rooms, assembly hall, sanitary facilities and technical rooms.

	Bernarduscollege
Floor area	3,848 m²
E-level	E52
K-level[10]	K24
Airtightness[11]	0.44 ACH
Energy demand cooling[12]	2.44 kWh/m²
Energy demand heating	15.20 kWh/m²
Compactness[13]	2.91

[10] The K-level indicates the overall heat insulation of the building. The better the isolation, the lower and the better the K-level is.

[11] Building airtightness can be defined as the resistance to inward or outward air leakage through unintentional leakage points or areas in the building envelope.

[12] Energy demand is the term used to describe how much energy is needed on an annual basis to keep the building warm in the winter and possibly cool in the summer.

[13] The compactness ratio is obtained by the sum of all surfaces of its envelope, divided by its gross heated volume.

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

865,215,215 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.

335,417,480 euro was allocated to the so-called green VMSW investments, while 341,179,883 euro was allocated to the social VMSW investments. For 66.46% (226,735,248 euro) of these social VMSW investments, there was no known E-level. 188,617,853 euro was allocated to VWF investments.

Impact

<u>Green investments VMSW</u>

Green investments	
Owner-occupied homes	1,694
Rental properties	5,401
Average E-level	47.0

The projects that fall within this scope, have an average E-level of 47. Of these projects, 76.1% were rental properties and 23.9% 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[	66	184
[30 – 35[	28	228
[35 – 40[	43	504
[40 – 45[	193	801
[45 – 50[	510	1,400
[50 – 55[	676	1,931
[55 – 60[	147	335

Social investments VMSW with known E-level

Social investments	
Owner-occupied homes	814
Rental properties	3,110
Average E-level	61.0

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 61. Of these projects, 79.3% were rental properties and 20.7% were owner-occupied homes.

E-level	Owner-occupied homes	Rental properties
[50 – 55[	25	368
[55 – 60[	271	858
[60 – 65[	365	1,298
[65 – 70[	145	572
[70 – 75[	0	0
[75 – 80[	8	14

Social investments with no known E-level

These investments include projects from both VMSW and VWF.

VMSW investments	
Owner-occupied homes	463
Rental properties	19,067

Of these VMSW projects with no known E-level, 97.6% were rental properties and 2.4% were owner-occupied homes.

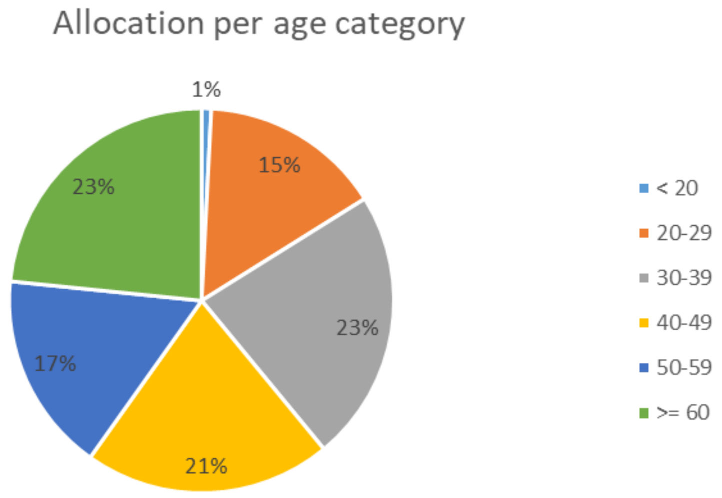
VWF investments		
Number of family members		Total amount
1	212	€ 30,675,260
2	143	€ 22,621,850
3	260	€ 41,366,658
4	226	€ 38,302,424
5	175	€30,258,530
6	86	€14,610,870
7	40	€6,743,170
8	14	€ 2,312,620
9	3	€ 536,800
10	3	€ 785,220
11	2	€ 404,450

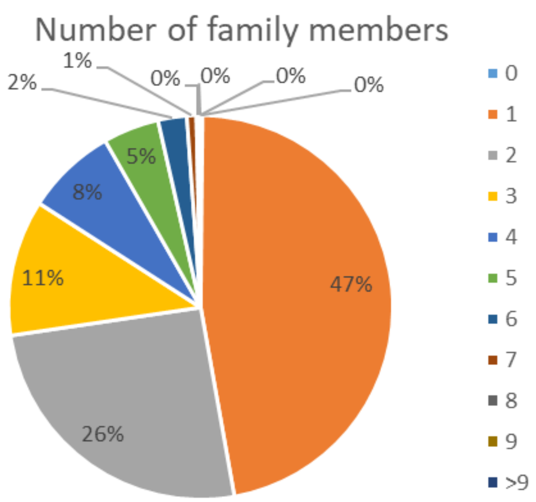
1,164 VWF investments were selected for a total of 188,617,853 euros. A total of 4,044 persons have benefited from these selected VWF investments.

VMSW statistics[14]

The three following graphs and figures give a global overview of the tenants supported by VMSW at the end of 2018. There were 8,535 newly allocated tenants on a total of 144,705 existing tenants.

Allocation per age category	
< 20	69
20-29	1,306
30-39	1,956
40-49	1,776
50-59	1,432
>= 60	1,996

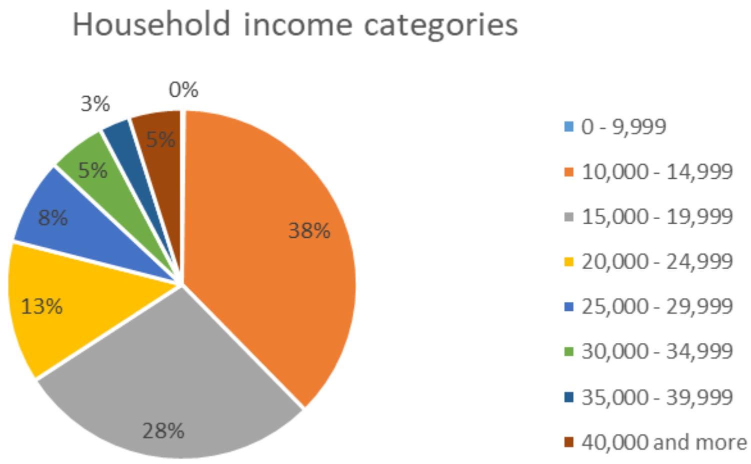




Number of family members (31/12/2018)	
0	222
1	68,092
2	36,831
3	16,572
4	11,013
5	6,803
6	3,507
7	1,159
8	354
9	106
>9	46

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

Household income[15] categories In EUR (31/12/2018)	
0	233
0.01 – 2,499	9
2,500 – 4,999	5
5,000 – 7,499	13
7,500 – 9,999	21
10,000 – 12,499	15,870
12,500 – 14,999	38,398
15,000 – 17,499	22,494
17,500 – 19,999	18,292
20,000 – 22,499	11,345
22,500 – 24,999	7,706
25,000 – 27,499	6,140
27,500 – 29,999	5,375
30,000 – 32,499	4,334
32,500 – 34,999	3,330
35,000 – 37,499	2,313
37,500 – 39,999	1,763
40,000 and more	7,064



In 2018, VMSW delivered a total of 2,697 residences, of which 1,741 were rented and 956 purchased.

Delivered residences	
Rental sector	1,741
Purchasing sector	956
Total	2,697

[15] 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 2018.

SOCIAL PATRIMONY RENOVATION (cost renovation higher than 15,000 euros per residence)	
Number of residences	
Preliminary draft	577
Award	1,522
Delivery	743
Number of projects	
Preliminary draft	14
Award	82
Delivery	35
Total net cost	
Preliminary draft	€ 65,385,437.50
Award	€ 146,214,804.75
Delivery	€ 59,723,269.83
Total investment (allocations)	
Award	€ 190,509,352.06
Delivery	€ 76,732,737.26

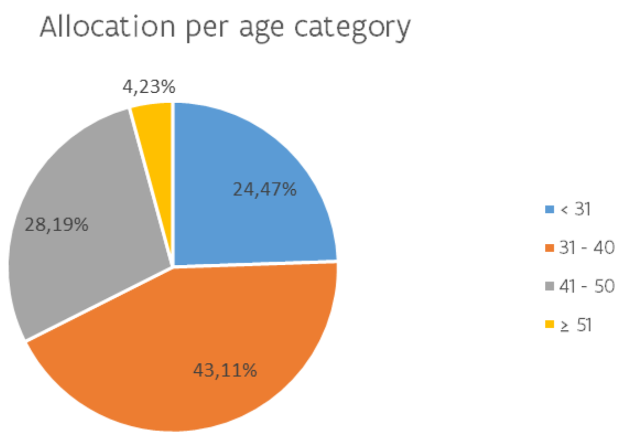
The EPB-requirements for housing for the period 2018 are:

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

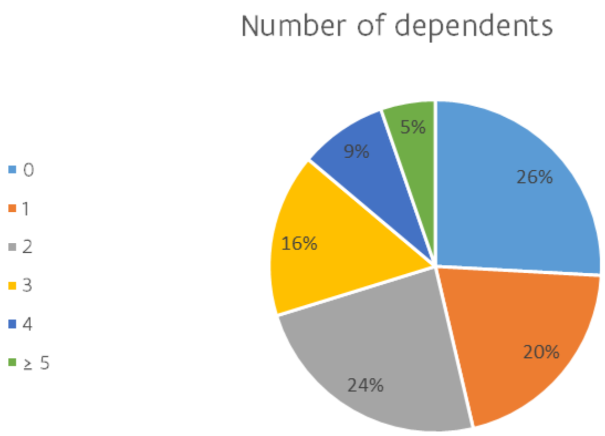
VWF statistics[16]

The following graphs and figures give a global overview of the new borrowers supported by VWF at the end of 2018.

Allocation per age category	
< 31	24.47%
31 – 40	43.11%
41 – 50	28.19%
≥ 51	4.23%



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



Number of dependents	Absolute figures	%	Total amount
0	569	25.88	€ 88,393,480
1	450	20.46	€ 74,928,165
2	525	23.87	€ 87,546,665
3	350	15.92	€ 60,843,339
4	188	8.55	€ 32,179,900
≥ 5	117	5.32	€ 21,296,992
Total	2,199	100.00	€ 365,188,541

Income categories (in EUR)	Number of loans	%	Average number of people at home	Average net family income (in EUR)
≤ 1,500	115	5.23	1.38	1,368.85
1,500.01 – 2,000.00	636	28.92	2.00	1,753.56
2,000.01 – 2,500.00	518	23.56	3.54	2,248.05
2,500.01 – 3,000.00	422	19.19	4.26	2,747.37
> 3,000.00	508	23.10	4.84	3,500.72