

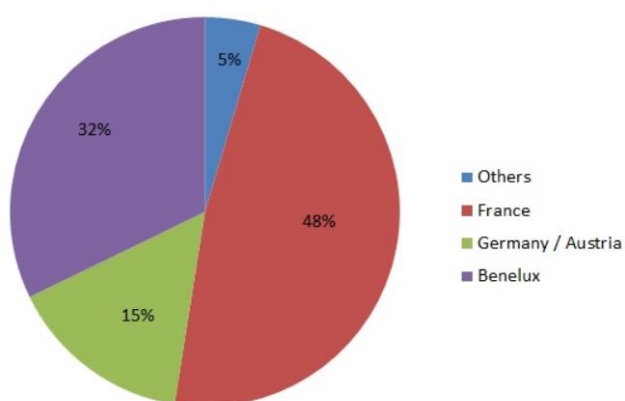


Sustainability Bond Reporting

Introduction

In November 2018 Flanders issued its inaugural sustainability bond. The aim of the bond is to finance sustainable green investments or social investments. These are in line with the sustainable development objectives previously published by Flanders in the context of "[Vision 2050](#)" and "[Vizier 2030](#)".

Split by investor geography characteristics



Key deal

Issue date	12 November 2018
Amount	EUR 500 million
Maturity	21 November 2033
Rating	Aa2 (Moody's)
Coupon	1.375%
Reoffer Yield	1.449%
Second Party Opinion	Sustainalytics
# Investors	61
# Countries	11

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 with these resources.

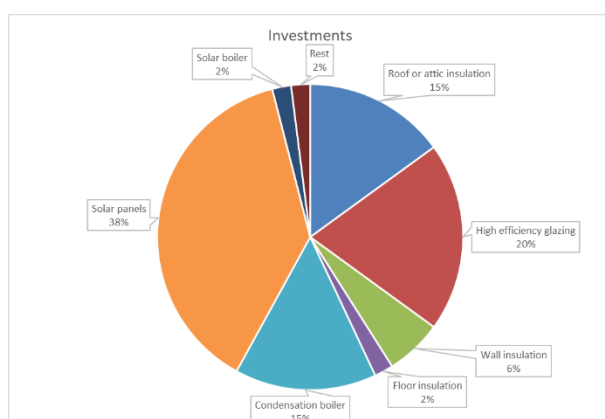
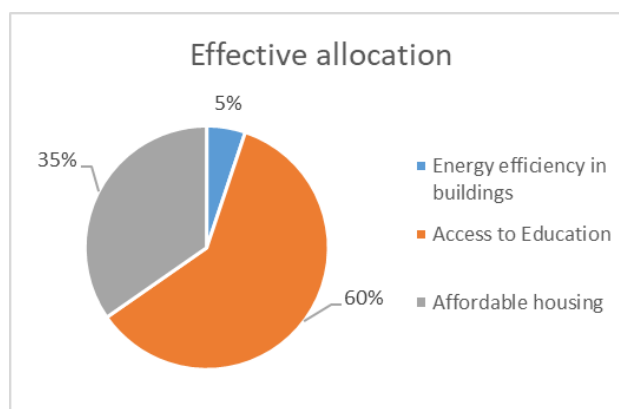
Flanders committed to report on the allocation and impact of the sustainability bond in the calendar year following the year of issuance.

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



Summary

Allocation



Energy efficiency in buildings

Access to education

	#	Students	Average E-level ¹
Passive schools	2	4,700	50.0
Non-passive schools	43	32,956	59.9

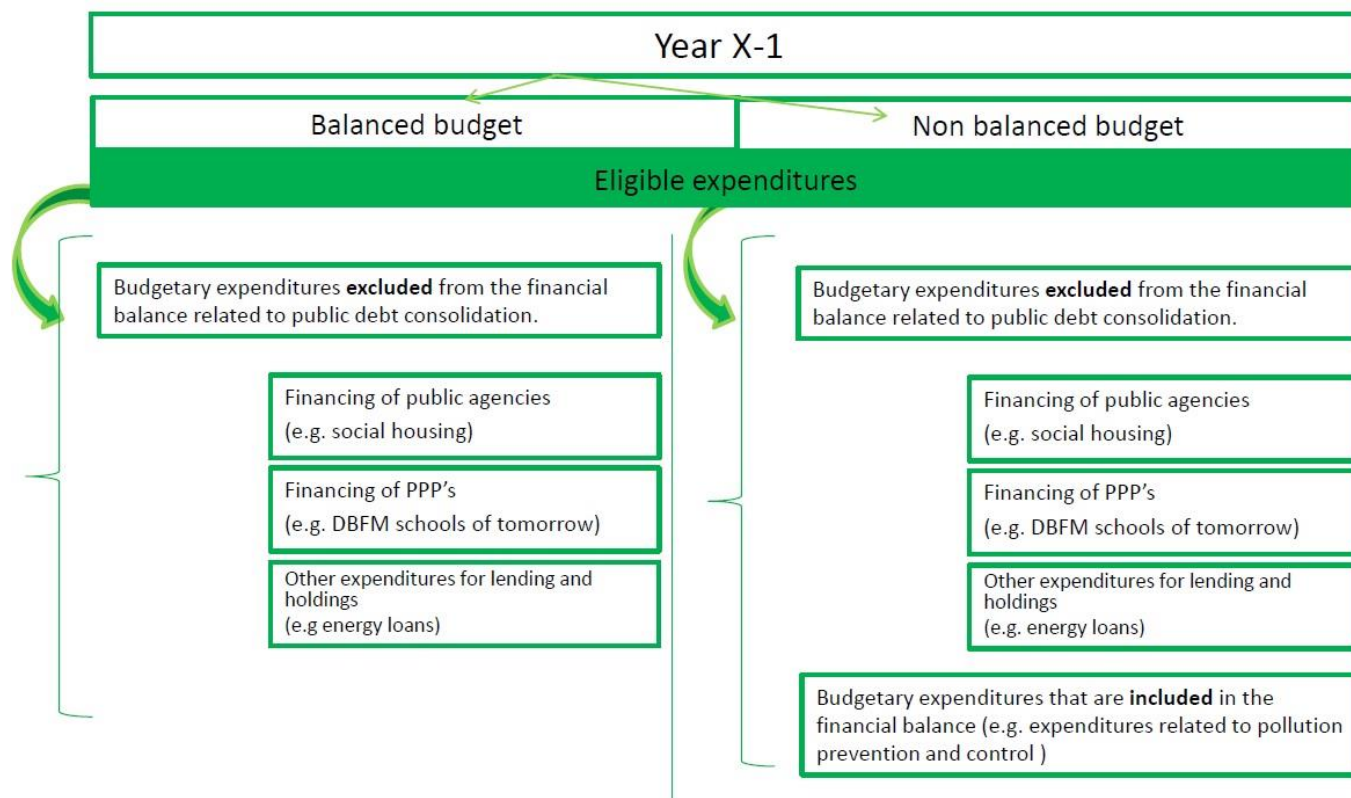
Affordable housing

	Green investments	Social investments
Owner-occupied homes	1,184	51
Rental properties	3,124	161
Average E-level	47.5	54.1

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.

General

Selection Methodology



The proceeds of the sustainability bond are allocated in priority to Flanders' expenditures of the year before issuance (Year X-1) and thereafter to 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, only ESA expenditures excluded from the financial balance related to the consolidated public debt are eligible since projects cannot be financed twice. An ESA balanced budget shows that there are sufficient ESA revenues to finance the ESA expenditures. On the contrary, an unbalanced budget indicates that Flanders received insufficient revenues to finance the expenditures which leaves room to partially finance certain expenditures with debt. If the budget of year X-1 is a non-balanced budget in ESA terms, expenditures excluded from the financial balance related to the consolidated public debt become eligible.

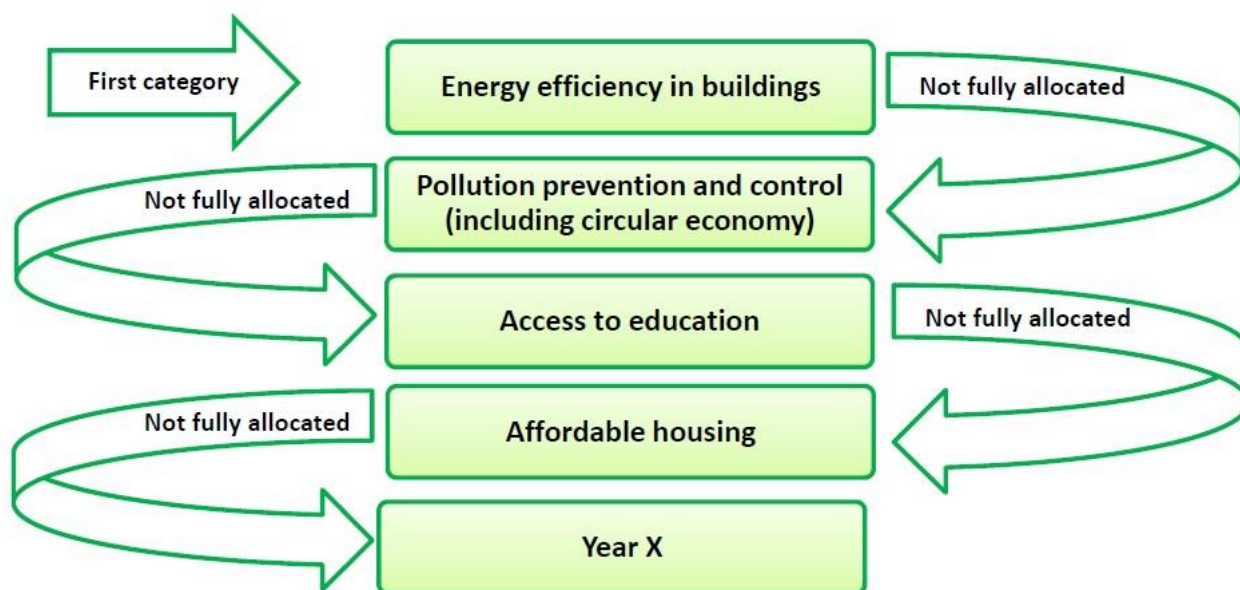
These eligible expenditures are not considered into the ESA result of Flanders according to the ESA 2010 rules. These eligible expenditures are for example expenditures for the

financing of public agencies, PPP-projects and other expenditures for lendings and holdings. These expenditures are voted by the Parliament.

When the budget is balanced the following expenses are eligible: financing of public agencies (e.g. social housing), financing of PPP's (e.g. DBFM schools of tomorrow) and other expenditures for lendings and holdings (e.g. energy loans). When the budget is unbalanced, expenditures related to pollution prevention and control are eligible, in addition to previously mentioned expenses.

A dedicated Sustainability Bond committee selects the eligible expenditures and approves the methodology used for the allocation. For this first 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.

Priority will be given to the most green projects. Consequently, the different categories in year X-1 are ranked as follows.



The proceeds of the inaugural sustainability bond are allocated to the following three categories from the framework: *Energy Efficiency in Buildings*, *Access to Education* and *Affordable Housing*. As in 2017 budget was fully met, expenditures related to *Pollution prevention and control (including circular economy)* were not eligible.

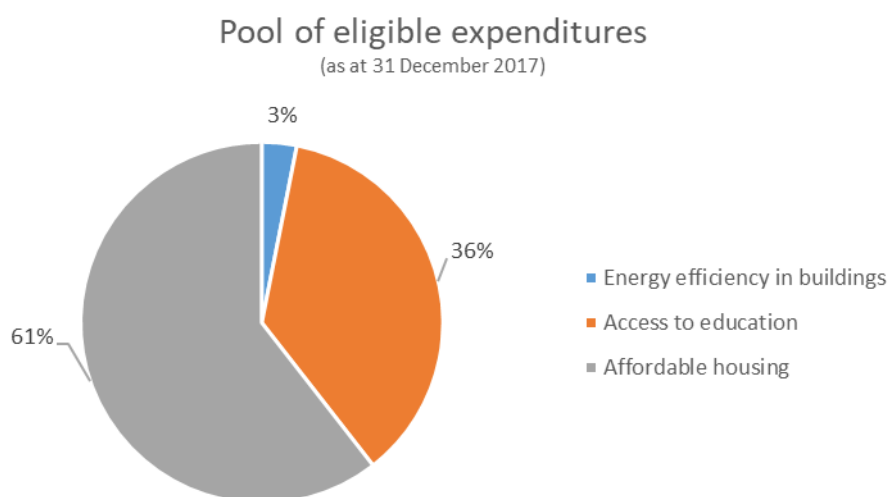


We attempt to allocate the proceeds of the bond as optimal as possible. Partially funding a project or transferring small residual amounts to the next year is not desirable. Therefore, the final projects will possibly be chosen based on their amount of funding versus the amount remaining to be allocated.

Allocation

In EUR m	Pool of eligible expenditures
Energy efficiency in buildings	25.70
Access to Education	300.97
Affordable housing	500.96
Pollution prevention and control (incl. Circular economy)	-
Total	827.63

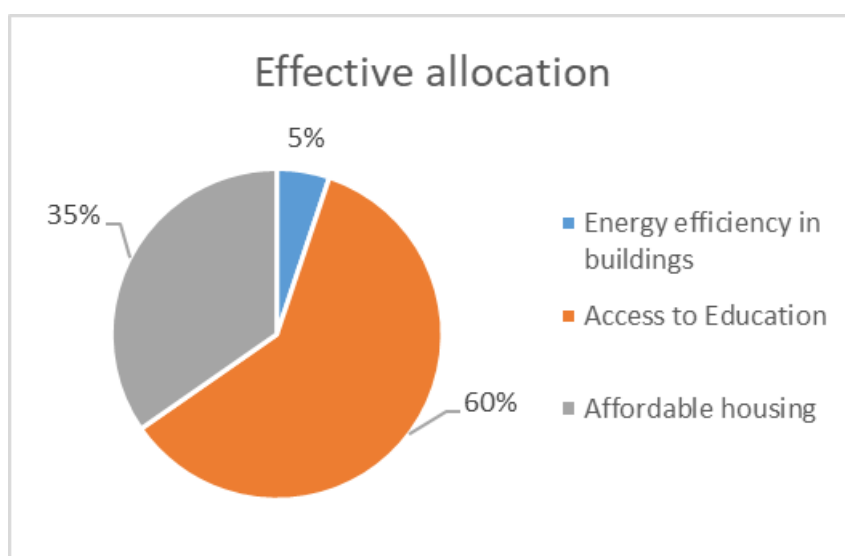
For the allocation of this sustainability bond, the total amount of eligible expenditures was 827.63 million euro. The largest part of this pool consists of the *Affordable housing* category (61%), followed by the category *Access to education* (36%) and *Energy efficiency in buildings* (3%). Since 2017 had a balanced budget, expenditures in *Pollution prevention and control (incl. Circular economy)* were not eligible.



On March 12th, 2019, the committee decided about the effective allocation. The delegates of VEA (Flemish Energy Agency), VMSW (social housing), School Invest and the department of Finance and Budget were present at this meeting. The delegates of OVAM and the department of Environment were excused. At this meeting, the following allocation was approved:

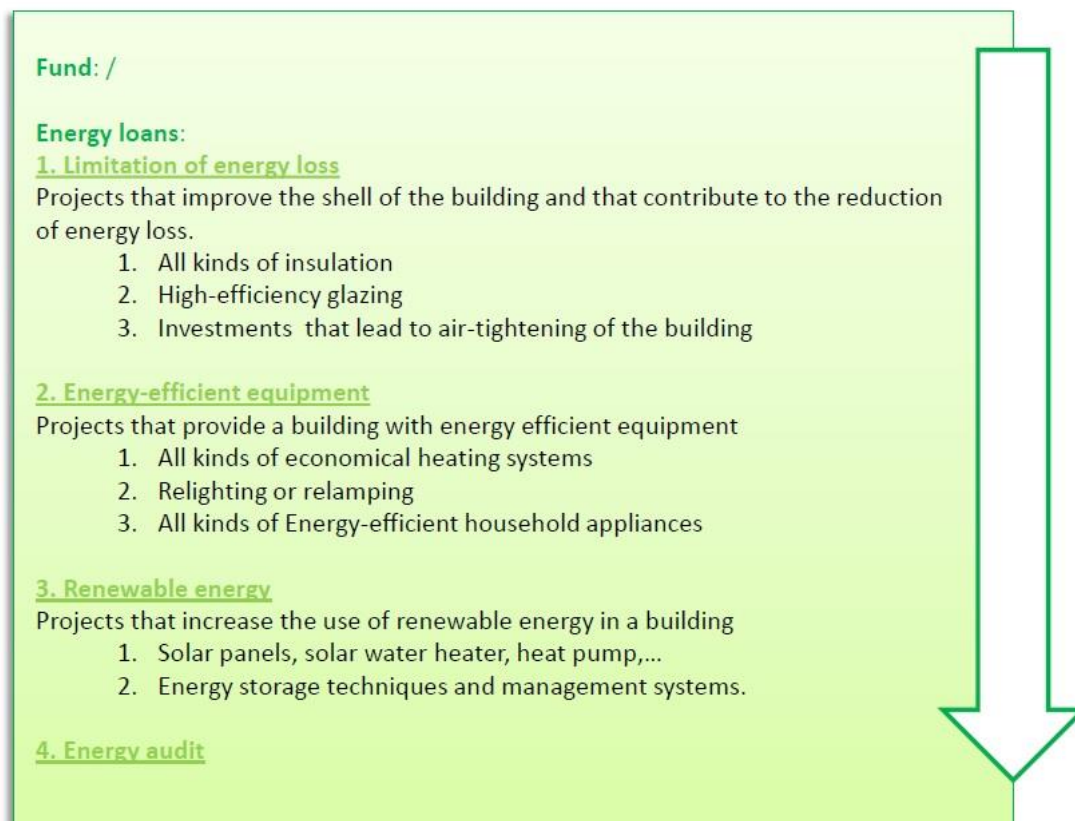


In EUR m	Effective allocation
Energy efficiency in buildings	25.70
Access to Education	300.97
Affordable housing	173.33
Pollution prevention and control (incl. Circular economy)	-
Total	500.00



Energy efficiency in buildings

Selection Methodology



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” is still in a design phase, there are currently no proceeds allocated.

Regarding the financing of Energy loans, Flanders prioritizes first 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 can gain from the renovation loan, but vulnerable low-income households have priority as reflected in the applicable interest rate. Vulnerable groups, so-called “priority group”, currently benefit from a zero-interest rate.



Effective allocation

For the sustainability bond issued in November 2018, 25.7 million euro was allocated to the category *Energy efficiency in buildings*, which is approximately 5.14% of the total nominal amount of this sustainability bond.

Impact²

For 2017, 3,629 energy loans were granted. 731 of these energy loans (20.1%), being a total of 6,002,578.07 euro, were granted to the priority group.

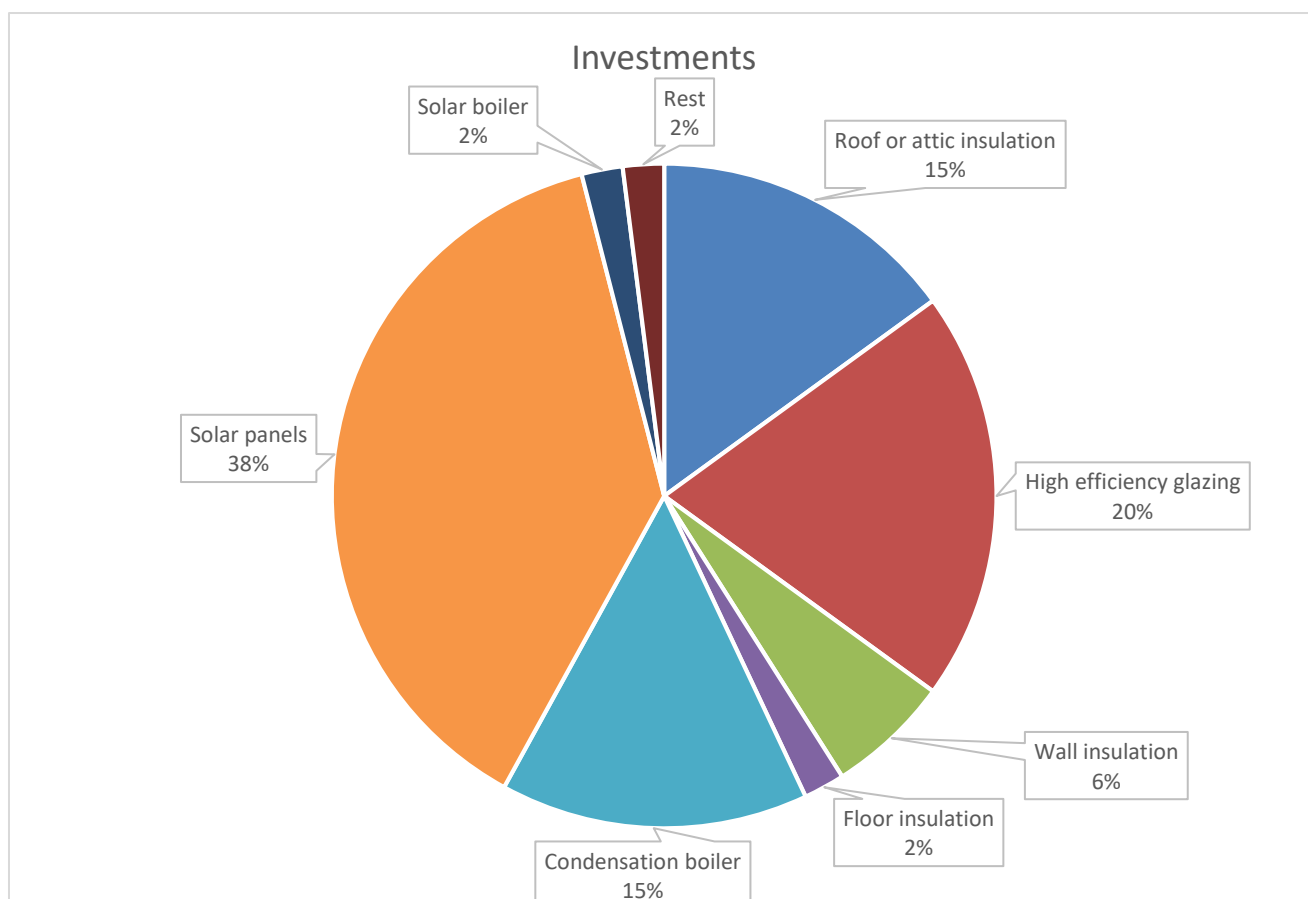
These energy loans resulted in energy savings of 2,449,575 euro³ and resulted in no less than 3,642 ton avoided CO₂ emissions⁴.

The following figures gives an overview of the most common investments financed with the energy loans in 2017.

² Based on information provided by VEA (Flemish Energy Agency)

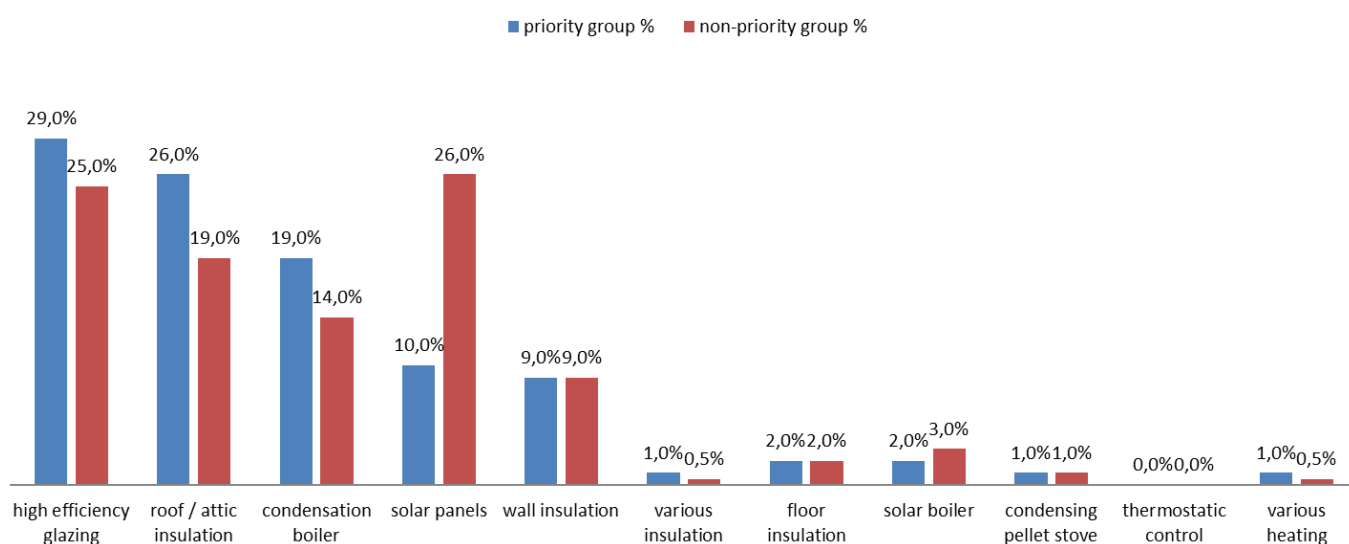
³ This is calculated based on an average cost of natural gas and electricity multiplied by an estimate of the magnitude of reduced consumption as a result of the various investments.

⁴ 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 (38%), followed by high efficiency glazing (20%) and roof or attic insulation and condensation boiler (both 15%).

Investment behaviour priority group vs non-priority group



The graph above shows a comparison 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 (29% of the investments for

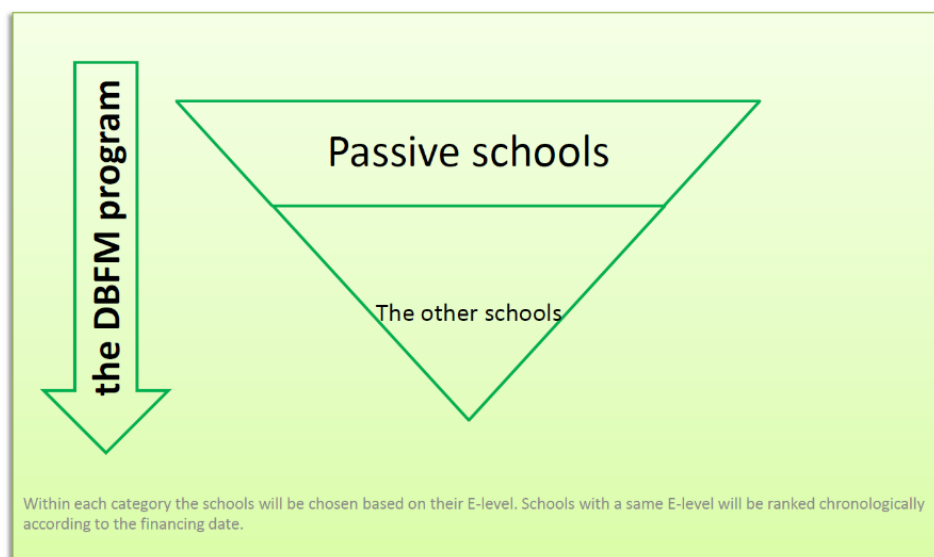


the priority group versus 25% for the non-priority group), closely followed by roof or attic insulation (26% versus 19%) and thirdly, the condensation boiler (19% versus 14%).

The investments in solar panels are the most notable difference between the two different groups. Of the investments made by the priority group, only 10% were investments in solar panels compared to 26% for the non-priority group.

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 300,970,623.07 euro was allocated to the category *Access to Education*, which is approximately 60% of the nominal amount of the bond. Within this category, 9,758,970.28 euro was allocated to passive schools.

Impact

For the allocation of this sustainability bond, Flanders selected 2 passive schools, namely 'Oude God' and 'Bernarduscollege'. These passive schools provide space to 4700 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 tables below, both passive schools meet this norm.

The other 43 selected (non-passive) schools provide space for a total of 32,956 students. These non-passive schools⁵ have an average E-level of 59.9.

Oude God - Mortsel



The new campus 'Oude God' in the park area in Mortsel offers space to 700 students. The campus is spread over three buildings: a primary school with multipurpose room, a kindergarten and a sports hall.

	Primary School	Kindergarten	Sports Hall
Floor area	2,418.9 m ²	2531.7 m ²	617.9 m ²
E-level	E42	E54	dna
K-level ⁶	K16	K17	K14
Airtightness ⁷	0.6 ACH	0.62 ACH	1.5 ACH
Energy demand cooling ⁸	5.44 kWh/m ² a	5.81 kWh/m ² a	3.44 kWh/m ² a
Energy demand heating	13.02 kWh/m ² a	14.65 kWh/m ² a	27.67 kWh/m ² a
Compactness ⁹	2.62	2.05	2.15

⁵ The E-level was unknown for 6 schools (Regina Pacis-Instituut, Sint-Amandscollege, Heilig Pius X-insituut, Via Tienen, Leielandscholen Campus Sint-Niklaas Kortrijk and Ges. Vrije Lagere School).

⁶ The K-level indicates the overall heat insulation of the building. The better the isolation, the lower and the better the K-level is.

⁷ Building airtightness can be defined as the resistance to inward or outward air leakage through unintentional leakage points or areas in the building envelope.

⁸ 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.

⁹ The compactness ratio is obtained by the sum of all surfaces of its envelope, divided by its gross heated volume.



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 m ²
E-level	E52
K-level	K24
Airtightness	0.44 ACH
Energy demand cooling	2.44 kWh/m ²
Energy demand heating	15.20 kWh/m ²
Compactness	2.91



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. 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 these 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

173,329,376.93 euro was allocated to the category *Affordable housing*. All the selected projects are projects from VMSW.¹⁰

A distinction is made between so-called green investments and social investments. Green investments include all projects with an E-level 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 below 60, the investments are considered as social.

167,614,367.50 euro was allocated to these so-called green investments. The remaining part of the proceeds, 5,751,552.28 euro, was allocated to these social investments.

Impact

Green investments

Green investments	
Owner-occupied homes	1,184
Rental properties	3,124
Average E-level	47.5

The projects that fall within this scope, have an average E-level of 47.5. Of these projects, 72.5% were rental properties and 27.5% were owner-occupied homes.

E-level	Owner-occupied homes	Rental properties
25.00 – 29.99	58	21
30.00 – 34.99	29	146
35.00 – 39.99	34	139
40.00 – 44.99	120	292
45.00 – 49.99	289	821
50.00 – 54.99	495	1,366
55.00 – 59.99	159	339

Social investments

Social investments	
Owner-occupied homes	51
Rental properties	161
Average E-level	54.1

¹⁰ The projects of VWF are ranked at the end of the list because the E-level is unknown.



As illustrated in the table below, all the 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 the selected projects was 54.1. Of these projects, 75.9% were rental properties and 24.1% were owner-occupied homes

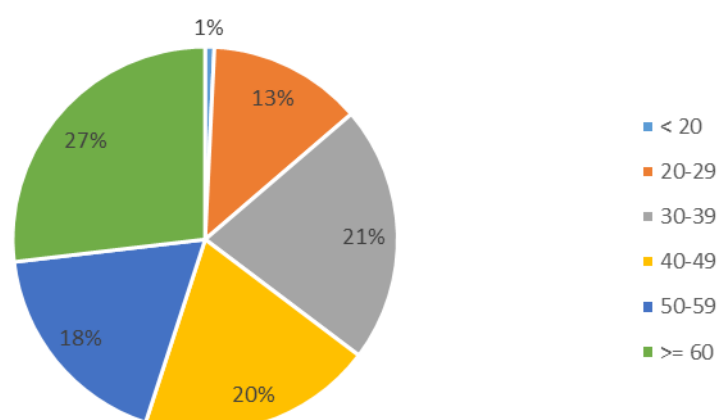
E-level	Owner-occupied homes	Rental properties
50.00 – 54.99	19	138
55.00 – 59.99	32	23

VMSW statistics¹¹

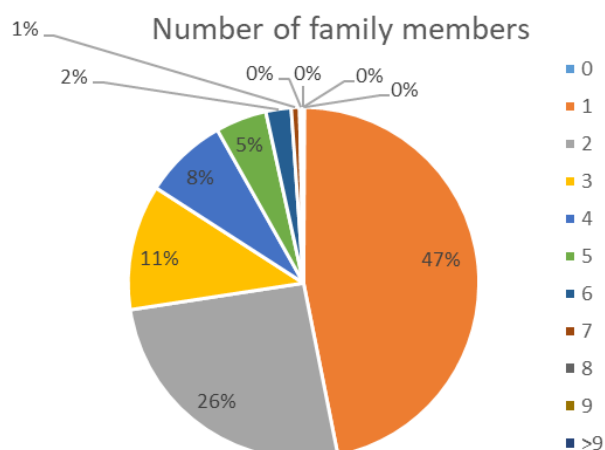
The three following graphs and figures give a global overview of the 142,077 tenants supported by VMSW at the end of 2017.

Allocation per age category	
< 20	85
20-29	1,430
30-39	2,382
40-49	2,179
50-59	2,001
>= 60	2,967

Allocation per age category



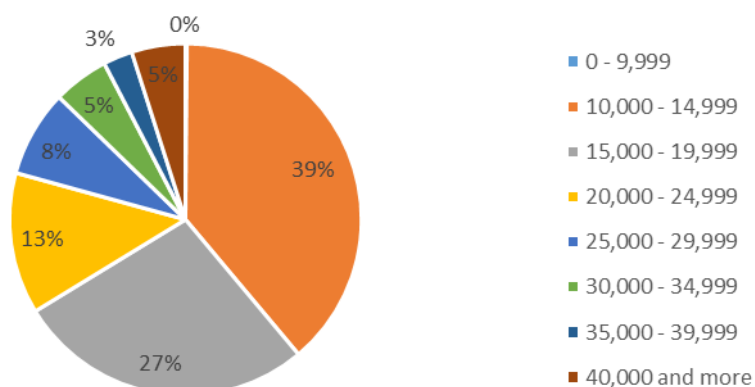
¹¹ No specific statistics concerning the following information were available for the selected projects.



Number of family members (31/12/2017)	
0	137
1	66,438
2	36,533
3	16,392
4	10,959
5	6,696
6	3,323
7	1,092
8	347
9	113
>9	47

Household income ¹² categories in EUR(31/12/2017)	
0	132
0,01 – 2,499	4
2,500 – 4,999	5
5,000 – 7,499	28
7,500 – 9,999	29
10,000 – 12,499	16,071
12,500 – 14,999	38,993
15,000 – 17,499	21,551
17,500 – 19,999	17,344
20,000 – 22,499	10,907
22,500 – 24,999	7,570
25,000 – 27,499	6,080
27,500 – 29,999	5,246
30,000 – 32,499	4,180
32,500 – 34,999	3,097
35,000 – 37,499	2,175
37,500 – 39,999	1,638
40,000 and more	7,027

Household income categories



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).



In 2017, VMSW delivered a total of 3,150 residences, of which 2,101 were rented and 1,049 purchased.

Delivered residences	
Rental sector	2,101
Purchasing sector	1,049
Total	3,150

The following table gives an overview of the renovation of the social patrimony in 2017.

SOCIAL PATRIMONY RENOVATION (cost renovation higher than 10,000 euros per residence)	
Number of residences	
Preliminary draft	1,241
Award	2,051
Delivery	2,489
Number of projects	
Preliminary draft	39
Award	79
Delivery	84
Total cost	
Preliminary draft	€ 106,518,984
Award	€ 181,980,336
Delivery	€ 156,944,812

The EPB-requirements for housing for the period 2017 are:

- For construction: maximum E50 per housing unit
- For major energetic renovation: maximum E90 per housing unit