

KBC

PRE-ISSUANCE VERIFICATION LETTER

SOLAR ENERGY, WIND ENERGY, MARINE RENEWABLE ENERGY, LOW CARBON BUILDINGS CRITERIA OF THE CLIMATE BONDS STANDARD

Type of engagement: Assurance Engagement

Period engagement was carried out: April- May 2018

Approved verifier: Sustainalytics

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Scope and Objectives

KBC has engaged Sustainalytics to review and verify that its green bond meets the requirements under the solar energy, wind energy, marine renewable energy, and low carbon buildings criteria of the Climate Bonds Standard.

KBC Group ("KBC", or "the company") is a European financial group with a focus on providing bank-insurance products and services to retail, SME and mid-cap clients. The net proceeds of the green bond will be used to finance the construction and operation of onshore wind parks in Wallonia and Flanders, the construction and operation of off-shore wind parks in the North Sea, operations of an onshore solar project in Flanders and residential mortgage loans for buildings in Flanders for which the first drawing (date of construction) occurred in 2016 or thereafter¹. The projects fall in the following

1. Renewable Energy
2. Green Buildings

Sustainability at KBC is integrated into the company's strategic decision-making and core business operations, with direct accountability at the Group Executive Committee, which reports biannually to the board on sustainability. KBC's commitment to sustainability is further underpinned by its adoption of the Equator Principles since January 2004, as well as support for the recommendations of the Task Force on Climate Related Financial Disclosures ("TCFD"), UN Global Compact, UNEP FI and the Energy Efficient Mortgages Action Plan (EEMAP). Within its Environmental Policy², KBC commits to develop and offer products and services to support a sustainable, low carbon and climate resilient society and has translated this commitment into sustainability targets. These targets include, among others, to increase the volume of sustainable investment to 10 billion euros by 2020, increase the share of renewables in the total energy credit portfolio to 50% by 2030 and reduce its own GHG emissions by at least 20% - absolute and per FTE - by 2020 (relative to 2015 and excluding commuter travel). The bond contributes to these targets and overall aims to promote a low-carbon economy and thus contribute to a sustainable financial market.

Climate Bonds Standards Criteria

For the projects selected for the bond the following pre-issuance requirements under Climate Bond Standards Version 2.1 apply:

- Solar Energy
 - Onshore solar electricity generation facilities

¹ The full eligibility criteria for low carbon building reads as follows: "Real estate loans for new constructed energy efficient residential buildings in the Flemish Region that comply with the "Energieprestatie en Binnenklimaat" (EPB) requirements included in the building code of the Flemish Region as of 2014 or later (E-level ≤ 60) and for which the first drawdown has occurred after January 1, 2016."

² https://www.kbc.com/en/system/files/doc/sustainability-reponsability/FrameworkPolicies/CSD_KBCgroupEnvironmentalPolicy_en.pdf

- Wholly dedicated transmission infrastructure and other supporting infrastructure for onshore solar electricity generation facilities including inverters, transformers, energy storage systems and control systems.
- Wind Energy
 - Onshore wind energy generation facilities
 - Dedicated transmission infrastructure and support facilities (e.g. transformers, backbone, transmission terminus, grid connections, dedicated facilities for support vessels and vehicles, equipment storage, onshore assembly)
 - Dedicated operational production, manufacturing or distribution facilities for key components, such as wind turbines, platforms etc.
- Marine Renewable Energy
 - Offshore wind energy generation facilities
 - Dedicated transmission infrastructure and support facilities (e.g. transformers, backbone, transmission terminus, grid connections, dedicated facilities for support vessels and vehicles, equipment storage, onshore assembly)
 - Dedicated operational production, manufacturing or distribution facilities for key components, such as wind turbines, platforms etc.
- Low Carbon Buildings
 - Residential property climate bonds: Benchmarking against the local market carbon performance

Issuing Entity's Responsibility

KBC was responsible for providing information and documents relating to:

- The details concerning the selection process for the nominated projects
- The details of the nominated projects and methodology applied
- The management systems for internal processes and controls for nominated projects including: tracking of proceeds, managing unallocated proceeds and earmarking funds to nominated projects
- The details of commitments for reporting prior to issuance, including: investment areas, management of unallocated proceeds and frequency of periodic Assurance Engagements

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of KBC's green bond, issued to finance eligible green buildings, and provided an independent opinion informing KBC as to the conformance of the green bond with the Pre-Issuance requirement and the solar energy, wind energy, marine renewable energy, and low carbon buildings criteria of the Climate Bonds Standard.

Sustainalytics has relied on the information and the facts presented by KBC. Sustainalytics is not responsible if any aspect of the Nominated Projects referred to in this opinion including estimates, findings, opinions, or conclusions are incorrect. Thus, Sustainalytics shall not be held liable if any of the information or data provided by KBC management and used as a basis for this assessment were not correct or complete.

Sustainalytics makes all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the bond.

Verifier's Responsibility

The work undertaken as part of this engagement included conversations with relevant KBC employees and review of relevant documentation to verify the green bond's conformance with the Climate Bonds Certification Pre-Issuance Requirements, which include:

- Conformance of KBC's green bond with the Climate Bonds Standard Version 2.1;

- Conformance with the Technical Criteria on solar energy, wind energy, marine renewable energy, and low carbon buildings
- Conformance with the Internal Processes & Controls requirements
- Conformance with Reporting Prior to Issuance requirements

Basis of the Opinion

Sustainalytics conducted the verification in accordance with the Climate Bond Standard Version 2.1 and with the International Standard on Assurance Engagements 3000 – Assurance Engagements other than Audits or Reviews of Historical Information.

Sustainalytics planned and performed the verification by obtaining evidence and other information and explanations that Sustainalytics considers necessary to give reasonable assurance that the KBC green bond meets the requirements of the Climate Bond Standard. Upon reviewing evidence and other information, Sustainalytics is of the opinion that KBC will ensure compliance with Climate Bond Standard requirements.

Sustainalytics has relied on the information and the facts presented by KBC. Sustainalytics is not responsible for any aspect of the Nominated Projects referred to in this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, Sustainalytics shall not be held liable if any of the information or data provided by KBC's management and used as a basis for this assessment were not correct or complete.

Conclusion

Based on the limited assurance procedures conducted, Sustainalytics believes that, in all material respects, KBC's green bond is in conformance with the Solar Energy, Wind Energy, Marine Renewable Energy and Low Carbon Buildings criteria of the Climate Bond Standard Pre-Issuance Requirements.

Schedule 1: Detailed Overview of Nominated Projects and Assets

Details of the Nominated Projects are provided below:

Renewable Energy:

Project name	Year of closing	Location	Status	Technology	Annual Energy Generation in MWh
# 1	2014	Flanders	Operational	Wind	114,290
# 2	2017	Wallonia	Construction	Wind	45,000
# 4	2010	Flanders	Operational	Solar	18,000

Marine Renewable Energy:

Project name	Year of closing	Location	Status	Technology	Annual Energy Generation in MWh
#5	2016	Off Shore - North Sea	Construction	Wind	1,100,000

Low Carbon Buildings:

Date of construction/ Date of first drawdown	Date of mortgage loan commitment	Asset location	Number of loans
2016	2014	Flanders	33
2016	2015	Flanders	202
2016	2016	Flanders	2,080

Schedule 2A: Pre-Issuance General Requirements

Selection of Nominated Projects and Assets:	<p>1.1 Statement on the environmental objectives of the bond</p> <p>1.2 Confirmation that Nominated Projects and Assets meet the Climate Bonds criteria</p> <p>1.3 Document a list of Nominated Projects and Assets</p> <p>1.4 Confirmation that Nominated Projects and Assets will not be nominated to other Climate Bonds</p> <p>1.5 Confirmation that Net Proceeds of the Green Bond shall not be greater than the value of the Nominated Projects and Assets</p>
Internal Processes and Controls	<p>2.1.1 Tracking of proceeds</p> <p>2.1.2 Managing of unallocated proceeds</p> <p>2.1.3 Earmarking funds to Nominated Projects and Assets</p>
Reporting Prior to Issuance	<p>3.1.1 Investment area of Nominated Projects and Assets</p> <p>3.1.2 Intended types of temporary investments for the management of unallocated proceeds</p> <p>3.1.3 Approach of Verifier</p> <p>3.1.4 Whether periodic Assurance Engagement will be undertaken, and the expected frequency of any periodic Assurance Engagements</p>

Schedule 2B: Conformance to the Pre-Issuance Requirements

Procedure Performed	Factual Findings	Error or Exceptions Identified
Verification of requirements specified under Selection of Nominated Projects and Assets	<p>1.1 The objective of the bond is to primarily use proceeds to promote a low-carbon economy and thus contribute to a sustainable financial market.</p> <p>1.2 The Nominated Projects and Assets meet the solar energy, wind energy, marine renewable energy, and low carbon buildings criteria of the Climate Bond Standard.</p> <p>1.3 The Nominated Projects and Assets include:</p> <ul style="list-style-type: none"> • Construction and operation of onshore wind parks in Wallonia and Flanders • The construction and operation of off-shore wind parks in the North Sea • Operations of an onshore solar project in Flanders • Residential mortgage loans for buildings in Flanders for which the first drawing (date of construction) occurred in 2016 or thereafter <p>1.4 KBC's management confirms that the projects shall not be nominated to other Climate Bonds.</p> <p>1.5 KBC's management confirms that the net proceeds of the bond shall not be greater than the value of the projects.</p>	None
Verification of requirements specified under Internal Processes and Controls	<p>2.1.1 KBC's management confirms that proceeds will be segregated and tracked in a systematic manner and will be exclusively used to finance Nominated Projects.</p> <p>2.1.2 KBC's management confirms that the balance of net proceeds not allocated to Eligible Assets will be held within the treasury of the Group, invested in money market products, cash and/or cash equivalent.</p> <p>2.1.3 KBC's management has confirmed that the proceeds from the bond allocated to eligible assets will be labelled individually in its internal information systems and that KBC will monitor these allocations on a monthly basis.</p>	None
Verification of requirements specified under Reporting Prior to Issuance	<p>3.1.1 KBC's management confirms that the proceeds of the transaction will primarily be used to finance and refinance investments in onshore solar and wind projects, off-shore wind energy and low carbon buildings.</p> <p>3.1.2 KBC's management confirms that unallocated proceeds shall be invested in money market products, cash and/or cash equivalent.</p> <p>3.1.3 The bond's offer letter confirms that an approved third-party verifier has been appointed to confirm the bond's conformance with pre-issuance requirements of the KBC criteria of the Climate Bonds Standard.</p>	None

	<p>3.1.4 The bond's offer letter confirms that an approved third-party verifier will conduct post-issuance assurance exercise within a year's time to reaffirm conformance of the bond with the KBC criteria of the Climate Bonds Standard.</p>	
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The Opinion was drawn up with the aim to explain why the analysed bond is considered sustainable and responsible. Consequently, this Opinion is for information purposes only and Sustainalytics will not accept any form of liability for the substance of the opinion and/or any liability for damage arising from the use of this Opinion and/or the information provided in it.

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The client is fully responsible for certifying and ensuring its commitments` compliance, implementation and monitoring.

Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that support investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. Global Capital named Sustainalytics the "Most Impressive Second Party Opinion Provider in 2017". In 2018, the firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan for its contribution to the growth of the Japanese Green Bond Market.

For more information, visit www.sustainalytics.com

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Climate Bonds