

KBC Group

PRE-ISSUANCE VERIFICATION LETTER

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

Type of engagement: Assurance Engagement

Period engagement was carried out: August 11, 2021

Approved verifier: Sustainalytics

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Scope and Objectives

KBC Group (KBC) has engaged Sustainalytics to review and verify that KBC's green bond meets the requirements under the Wind Energy criteria,¹ Marine Renewable Energy criteria,² and Low Carbon Buildings criteria³ of the Climate Bonds Standard.⁴

KBC is a European financial group with a focus on providing bank-insurance products and services to retail, SME, and mid-cap clients. KBC recognizes its role as a financial institution in the transition to a low-carbon economy and through its green financing aims to support the development of the Green Bond markets in Belgium and Europe and mobilize its stakeholders around this objective.

The net proceeds of the green bond will be used to finance the construction and operation of onshore wind parks in Wallonia, Flanders, and the Netherlands, the construction and operation of offshore wind parks in the North Sea (Belgium) and Baltic Sea (Germany) and residential mortgage loans for buildings in Flanders for which the first drawing (date of construction) occurred in 2016 or thereafter.⁵

Climate Bonds Standard Criteria

Pre-issuance requirements under Version 3.0⁶:

1. Wind Energy
 - a. Onshore wind energy generation facilities
2. Marine Renewable Energy
 - a. Offshore wind facilities
3. Low Carbon Buildings
 - a. Residential buildings

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

¹ Climate Bonds Standard, Wind Energy Criteria under the Climate Bonds Standard. See more, at: <https://www.climatebonds.net/standard/wind>

² Climate Bonds Standard, Marine Renewable Energy Criteria under the Climate Bonds Standard. See more, at:

<https://www.climatebonds.net/standard/marine>

³ Climate Bonds Standard, Low Carbon Buildings Criteria under the Climate Bonds Standard. See more, at:

⁴ Climate Bonds Standard, Criteria under the Climate Bonds Standard. See more, at: <https://www.climatebonds.net/standard/buildings>

⁵ 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."

⁶ Climate Bonds Standard, Climate Bonds Standard Version 3.0. See more, at:

https://www.climatebonds.net/files/files/Climate%20Bonds_Standard_Version%203_0_December%202017.pdf

- 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 Nominated Projects, and provided an independent opinion informing KBC as to the conformance of the green bond with the Pre-Issuance requirements and 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's 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 confirm 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 3.0;
- Conformance with the Wind Energy, Marine Renewable Energy and Low Carbon Buildings Technical Criteria;
- 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 Bonds Standard Version 3.0 and with 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 limited assurance that KBC's green bond meets the requirements of the Climate Bonds Standard. Upon reviewing evidence and other information, Sustainalytics is of the opinion that KBC will ensure compliance with Climates Bonds Standards requirements.

Conclusion

With the issuance of its third green bond, KBC is aiming to finance renewable energy projects including onshore and offshore wind as well as green building assets that have an overall positive impact on the environment and promote the transition to a low carbon and climate resilient economy. Based on the limited assurance procedures conducted of KBC's green bond under the Wind Criteria, Marine Renewable Energy and Low Carbon Buildings criteria of the Climate Bonds Standard, nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, KBCs green bond is not in conformance with the Climate Bond Standards Pre-Issuance Requirements.

Schedule 1: Detailed Overview of Nominated Projects and Assets

Details of the Nominated Projects are provided below:

Wind Energy

Project name	Location	Status	Annual Energy Generation in MWh	Total Loan Size in EUR
P6	Flanders	Construction	11.544	6.870.145,26
P7	Flanders	Construction	20.684	10.452.555,36
P8	Flanders	Construction	28.551	16.323.849,73
P9	Flanders	Construction	10.538	5.188.542,20
P10	NL	Construction	227.900	98.590.580,00
P11	Wallonia	Operational/ Construction	77.009	52.211.600,00
P12	Flanders	Construction	10.970	5.053.168,70
P13	Flanders	Construction	10.734	5.745.231,14
P14	Flanders	Construction	7.575	4.775.337,41
P15	Flanders	Construction	174.242	36.873.631,42

Marine Renewable Energy

Project name	Location	Status	Annual Energy Generation in MWh	Total Loan Size in EUR
P1	North Sea (BE)	Operational	547.159	396.932.340,15
P2	North Sea (BE)	Operational	1.087.000	912.949.449,18
P3	North Sea (BE)	Operational	643.300	469.683.059,52
P4	North Sea (BE)	Operational	776.400	312.475.542,69
P5	North Sea (BE)	Operational	829.700	541.511.771,57
P16	Baltic Sea (DE)	Construction	1.104.280	511.000.000,00

Low Carbon Buildings

Date of construction/ Date of first drawdown	Date of mortgage loan commitment	Asset location	Number of loans
2017	2016	Flanders	11
	2017	Flanders	85
2018	2016	Flanders	0
	2017	Flanders	8
	2018	Flanders	61
2019	2017	Flanders	1
	2018	Flanders	10
	2019	Flanders	380
2020	2018	Flanders	2
	2019	Flanders	71
	2020	Flanders	338
2021	2019	Flanders	5
	2020	Flanders	12
	2021	Flanders	166

Schedule 2A: Pre-Issuance General Requirements

Sustainalytics has conducted this verification using the following Pre-Issuance Requirements under Climate Bonds Standard Version 3.0:

<p>1. Use of Proceeds</p>	<p>1.1 The Issuer shall document the Nominated Projects & Assets which are proposed to be associated with the Bond and which have been assessed as likely to be Eligible Projects & Assets. The Issuer shall establish a list of Nominated Projects & Assets which can be kept up-to-date during the term of the Bond.</p> <p>1.2 The expected Net Proceeds of the Bond shall be no greater than the Issuer's total investment exposure to the proposed Nominated Projects & Assets, or the relevant proportion of the total Market Value of the proposed Nominated Projects & Assets which are owned or funded by the Issuer.</p> <p>1.3 Nominated Projects & Assets shall not be nominated to other Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instruments, green bonds, green loans or other labelled instruments (such as social bonds or SDG bonds) unless it is demonstrated by the Issuer that:</p> <p>1.3.1 distinct portions of the Nominated Projects & Assets are being funded by different Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instruments, green bonds, green loans or other labelled instruments; or,</p> <p>1.3.2 the existing Certified Climate Bond, Certified Climate Loan or Certified Climate Debt Instrument is being refinanced via another Certified Climate Bond, Certified Climate Loan or Certified Climate Debt Instrument.</p>
<p>2. Process for Evaluation and Selection of Projects & Assets</p>	<p>2.1 The Issuer shall establish, document and maintain a decision-making process which it uses to determine the eligibility of the Nominated Projects & Assets. The decision-making process shall include, without limitation:</p> <p>2.1.1 A statement on the climate-related objectives of the Bond;</p> <p>2.1.2 How the climate-related objectives of the Bond are positioned within the context of the Issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability;</p> <p>2.1.3 The Issuer's rationale for issuing the Bond;</p> <p>2.1.4 A process to determine whether the Nominated Projects & Assets meet the eligibility requirements specified in Part C of the Climate Bonds Standard.</p> <p><i>Note to 2.1: A wide variety of climate-related objectives are possible. These can vary from increasing the installed capacity of low carbon assets, such as solar power facilities, to having a specific objective focused on the operations or indirect effects of the projects & assets, such as emissions reductions.</i></p> <p><i>The climate-related objectives of the Bond, as stated by the Issuer, have implications for the reporting requirements under the Climate Bonds Standard. See Clauses 2.3, 5.2, 5.8, 6.1.1 and 8.4.</i></p> <p>2.2 The Issuer should include under Clause 2.1 further aspects of the decision-making process, including:</p>

	<p>2.2.1 related eligibility criteria, including, if applicable, exclusion criteria or any other process, applied to identify and manage potentially material environmental, social or governance risks associated with the Nominated Projects & Assets;</p> <p>2.2.2 any green standards or certifications referenced in the selection of Nominated Projects & Assets.</p> <p>2.3 The Issuer shall assess that all proposed Nominated Projects & Assets to be associated with the Bond meet the documented objectives as stated under Clause 2.1.1 and are likely to conform to the relevant eligibility requirements under Part C of the Climate Bonds Standard.</p>
<p>3. Management of Proceeds</p>	<p>3.1 The systems, policies and processes to be used for management of the Net Proceeds shall be documented by the Issuer and disclosed to the Verifier, and shall include arrangements for the following activities:</p> <p>3.1.1 Tracking of proceeds: The Net Proceeds of the Bond can be credited to a sub-account, moved to a sub-portfolio, or otherwise tracked by the Issuer in an appropriate manner and documented.</p> <p>3.1.2 Managing unallocated proceeds: The balance of unallocated Net Proceeds can be managed as per the requirements in Clause 7.3.</p> <p>3.1.3 Earmarking funds to Nominated Projects & Assets: An earmarking process can be used to manage and account for funding to the Nominated Projects & Assets and enables estimation of the share of the Net Proceeds being used for financing and refinancing.</p>
<p>4. Reporting</p>	<p>4.1 The Issuer shall prepare a Green Bond Framework and make it publicly available prior to Issuance or at the time of Issuance. The Green Bond Framework shall include, without limitation:</p> <p>4.1.1 Confirmation that the Bonds issued under the Green Bond Framework are aligned with the Climate Bonds Standard. This may include statements of alignment with other applicable standards, such as the EU Green Bond Standard, the ASEAN Green Bond Standard, Chinese domestic regulations, Japanese Green Bond Guidelines, etc.;</p> <p>4.1.2 A summary of the expected use of proceeds, as defined under Clause 1.1, and the expected contribution of the relevant sectors or sub-sectors to the rapid transition required to achieve the goals of the Paris Climate Agreement;</p> <p>4.1.3 A description of the decision-making process, as defined under Clause 2.1, with particular reference to the requirements in Clause 2.1.2;</p> <p>4.1.4 Information on the methodology and assumptions to be used for: confirming, where required by relevant Sector Eligibility Criteria, the characteristics or performance of Nominated Projects & Assets required to conform to the relevant eligibility requirements under Part C of the Climate Bonds Standard; and any other additional impact metrics that the issuer will define.</p> <p>4.1.5 A summary of the approach to the management of unallocated Net Proceeds in accordance with Clause 3.1;</p> <p>4.1.6 The intended approach to providing Update Reports to reaffirm conformance with the Climate Bonds Standard while the Bond remains outstanding;</p> <p>4.1.7 The list of proposed Nominated Projects & Assets associated with the Bond and the investment areas, as provided in Clause 9.1, into which the Nominated Projects & Assets fall. Where there are limits on the amount of detail that can be made available about specific Nominated Projects & Assets, information shall be presented on the investment areas which the Nominated Projects & Assets fall into, as provided in</p>

	<p>Clause 9.1, and the Issuer shall provide an explanation of why detail on Nominated Projects & Assets is limited;</p> <p>4.1.8 Where a proportion of the Net Proceeds are used for refinancing, an estimate of the share of the Net Proceeds used for financing and refinancing, and the relevant Nominated Projects & Assets or investment areas which may be refinanced. This may also include the expected look-back period for refinanced Nominated Projects & Assets.</p> <p><i>Note: Issuers are encouraged to disclose as much information as possible with respect to Nominated Projects & Assets. However, in many cases it is not possible for the Issuer to disclose detailed information about specific projects & assets prior to the issuance of the Bond. This limitation may be due to confidentiality arrangements with owners of projects & assets, the dynamic nature of the project portfolio, competitive considerations, or other legal provisions which limit the disclosure of detailed information.</i></p> <p>4.2 The Issuer shall include in the Disclosure Documentation:</p> <p>4.2.1 The investment areas, as provided in Clause 9.1, into which the Nominated Projects & Assets fall;</p> <p>4.2.2 The intended types of temporary investment instruments for the management of unallocated Net Proceeds in accordance with Clause 7.3;</p> <p>4.2.3 The Verifier engaged by the Issuer for the mandatory verification engagements;</p> <p>4.2.4 The intended approach to providing Update Reports to reaffirm conformance with the Climate Bonds Standard while the Bond remains outstanding, including the location of the published documents;</p> <p>4.2.5 The Climate Bonds Initiative Disclaimer provided in the Certification Agreement.</p> <p><i>Note to 4.2.4: Issuers are encouraged to provide their Update Reports through existing reporting channels for the bond markets, such as the Electronic Municipal Market Access (EMMA) website for the US Municipality sector.</i></p>
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Schedule 2B: Conformance to the Pre-Issuance Requirements

Details of KBC's internal processes and controls as per the Pre-Issuance Requirements are provided below:

Procedure Performed	Factual Findings	Error or Exceptions Identified
1. Use of Proceeds	<p>1.1 KBC has developed a list of proposed Nominated Projects & Assets which comply with the Wind Energy, Marine Renewable, and Low Carbon Buildings sector criteria of the Climate Bonds Standard. KBC intends to keep this list updated with all the financed projects that fall within the scope of KBC's green bond program and Framework. The proposed Nominated Projects and Assets include:</p> <ul style="list-style-type: none"> • Construction and operation of onshore wind facilities in Wallonia, Flanders and the Netherlands • The construction of offshore wind facilities in the North Sea and Baltic Sea • Residential mortgage loans for buildings in Flanders for which the first drawing (date of construction) occurred in 2016 or thereafter <p>1.2 KBC's management confirms that the net proceeds of the future bond will not be greater than the total investment exposure to the proposed Nominated Projects & Assets.</p> <p>1.3 KBC's management confirms that the Nominated Projects & Assets will not be nominated to other Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instrument, green bonds, green loans or other labelled instruments unless it is demonstrated by KBC that distinct portions of the Nominated Projects & Assets are being funded by different instruments or that the existing instrument is being refinanced via another labelled instrument.</p>	None
2. Process for Evaluation and Selection of Projects & Assets	<p>2.1.1. The KBC Green Bond Framework states that the intention of the green bonds is to support the development of green finance in Belgium.</p> <p>2.1.2. KBC's environmental objectives are summarized in the KBC Green Bond Framework and KBC 2020 Sustainability Report⁷.</p> <p>2.1.3. KBC's rationale for issuing green bonds is to enhance its ability to finance the green projects of its clients and to mobilise all its stakeholders around this objective.</p> <p>2.1.4. The KBC Green Bond Framework includes a process for project evaluation and selection in which a dedicated Green Bond Committee (or the "Committee") verifies the compliance of the projects with the use of proceeds criteria set in the Framework. The Committee comprises representatives including at least one general manager from Group Treasury, Corporate Sustainability and representatives from the business units. The projects are also expected to comply with relevant legislation, including</p>	None

⁷ KBC, "Sustainability Report 2020", at: <https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/PerfRep/2020/csr-sr-2020.pdf>

	<p>applicable regulatory environmental and social requirements. The Committee commits to document the assessment process to demonstrate to an independent auditor that funded loans meet the eligibility criteria.</p> <p>2.2.1. KBC has sufficient measures in place to manage and mitigate environmental and social risks that are commonly associated with the eligible category.</p> <p>2.2.2. N/A</p> <p>2.2.3. KBC's Green Bond Committee comprised of representatives from Group Treasury, Corporate Sustainability, and other business units will verify that all proposed Nominated Projects & Assets conform to the Climate Bonds Taxonomy, Wind Energy, Marine Renewable Energy and Low Carbon Buildings sector criteria.</p>	
3. Management of Proceeds	<p>3.1.1 The KBC Green Bond Framework outlines a process by which proceeds will be tracked.</p> <p>3.1.2 Issuer will manage unallocated net proceeds in money market product, cash and/or cash equivalent.</p> <p>3.1.3 The KBC Green Bond Framework details the process KBC will use to allocate and manage green bonds proceeds. This will enable the estimation of the share of the Net Proceeds being used for financing and refinancing.</p>	None
Reporting Prior to Issuance	<p>4.1.1. Bonds issued under the KBC Green Bond Framework are intended to align with the Climate Bonds Standard.</p> <p>4.1.2. The KBC Green Bond Framework indicates that green bond proceeds will be used, as defined under Clause 1.1, and the expected contribution of the relevant sectors or sub-sectors to the rapid transition required to achieve the goals of the Paris Climate Agreement.</p> <p>4.1.3. The KBC Green Bond Framework provides detail on its decision-making process, as described in 2.1.</p> <p>4.1.4. KBC's Nominated Projects & Assets will conform with the Wind Energy, Marine Renewable Energy and Low Carbon Buildings sector criteria. KBC may report on the following impact metrics: installed renewable energy capacity in GW or MW, expected or actual annual renewable energy generation in MWh, estimated annual GHG emissions avoided (in tCO_{2e}), date of construction, certification level, estimated annual energy savings in MWh or GWh compared to a baseline.</p> <p>4.1.5. KBC will manage unallocated net proceeds in accordance with Clause 3.1</p> <p>4.1.6. KBC will request on an annual basis, starting one year after issuance and until maturity, a limited assurance report of the allocation of the Green Bond proceeds to Eligible Assets, provided by a reputable external auditor.</p> <p>4.1.7. KBC's Nominated Projects & Assets fall under Wind Energy, Marine Renewable Energy and Low Carbon Buildings sector criteria. KBC will report on the investment areas which the Nominated Projects & Assets fall into by the total amount of proceeds allocated to Eligible Assets, the allocated amounts to Eligible Assets per Use of Proceeds category, origination timeframe and maturity profile of the loans per</p>	None

	<p>Use of Proceeds category, and the amount of unallocated proceeds.</p> <p>4.1.8. KBC has estimated that 36% of the green bond proceeds will be used to finance new projects, while 64% will be used for refinancing</p> <p>4.2.1. KBC's Nominated Projects & Assets will conform with the Wind Energy, Marine Renewable Energy and Low Carbon Buildings sector criteria.</p> <p>4.2.2. The intended types of temporary investment instruments for the management of unallocated Net Proceeds are in accordance with Clause 7.3 of the Climate Bonds Standard.</p> <p>4.2.3. The KBC has confirmed that an approved third-party verifier will conduct periodic assurance within a year to reaffirm conformance of the bond with the Wind Energy, Marine Renewable Energy and Low Carbon Buildings criteria of the Climate Bonds Standard.</p> <p>4.2.4. KBC will on at least an annual basis prepare a report to update investors on the allocation and impact of the net proceeds of the Green Bonds to Eligible Assets. Both allocation report and non-financial impact report will be made publicly available in the Green Bond section of KBC's Investor Relations webpage.</p> <p>4.2.5. Sustainalytics notes that under the terms of its certification, KBC must include the CBI Disclaimer provided in the Certification Agreement in disclosure documentation.</p>	
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The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

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