

KBC

PRE-ISSUANCE VERIFICATION LETTER

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

Type of engagement: Assurance Engagement

Period engagement was carried out: December 2019

Approved verifier: Sustainalytics

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Scope and Objectives

KBC Group (“KBC”, or “the company”) has engaged Sustainalytics to review and verify that its green bond meets the requirements under the wind energy, marine renewable energy, and low carbon buildings criteria of the Climate Bonds Standard.

KBC 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, Flanders and the Netherlands, the construction and operation of off-shore wind parks in the North Sea (Belgium) and Fryslan, 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
3. Marine Renewable Energy

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 developing and offering 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

Pre-issuance requirements under Climate Bond Standards Version 2.1:

- 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)

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

- 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 Engagement

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 the 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 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 2.1;
- Conformance with the Technical Criteria on 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 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 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

With the issuance of its second green bond, KBC is aiming to finance renewable energy projects including onshore and offshore wind as well as green building projects 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, KBC's green bond is not in conformance with the Climate Bond Standards Pre-Issuance Requirements.

Schedule 2A: Pre-Issuance General Requirements

<p>Selection of Nominated Projects and Assets:</p>	<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>
<p>Internal Processes and Controls</p>	<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>
<p>Reporting Prior to Issuance</p>	<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 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, Flanders and the Netherlands • The construction of offshore wind parks in the North Sea • Residential mortgage loans for buildings in Flanders for which the first drawing (date of construction) occurred in 2014 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>	
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>	
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 wind projects, off-shore wind energy and low carbon buildings.</p> <p>3.1.2 KBC's management confirms that unallocated proceeds shall 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 and post issuance requirements of the Wind Energy, Marine Renewable Energy and Low Carbon Buildings criteria of the Climate Bonds Standard.</p>	

	<p>3.1.4 The bond's offer letter confirms that an approved third party verifier will conduct periodic assurance within a year's time to reaffirm conformance of the bond with the Wind Energy, Marine Renewable Energy and Low Carbon Buildings criteria of the Climate Bonds Standard.</p>	
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Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that supports 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. In 2015, Global Capital awarded Sustainalytics "Best SRI or Green Bond Research or Ratings Firm" and in 2018 and 2019, named Sustainalytics the "Most Impressive Second Party Opinion Provider". The firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance in 2018, and in 2019 was named the "Largest Approved Verifier for Certified Climate Bonds" by the Climate Bonds Initiative. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan and the Minister of the Environment Award in the Japan Green Contributor category of the Japan Green Bond Awards in 2019.

For more information, visit www.sustainalytics.com

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