

# Second-Party Opinion

## KBC Social Bond Framework



### Evaluation Summary

Sustainalytics is of the opinion that the KBC Social Bond Framework is credible and impactful and aligns with the four core components of the Social Bond Principles 2021. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds – Access to Education, Affordable Basic Infrastructure for Sport and Culture, Hospitals, Care Facilities, Social Housing and SME Loans – are aligned with those recognized by the Social Bond Principles 2021. Sustainalytics expects investments in the eligible categories to lead to a positive social impact in Belgium and advance the UN Sustainable Development Goals, specifically SDGs 3, 4, 8, 9, 10 and 11.



**PROJECT EVALUATION / SELECTION** KBC has established a Green and Social Bond Committee (the “Committee”), comprised of representatives from Treasury, Corporate Sustainability and business units where required. Different business units will be responsible for evaluating and selecting projects, and submitting them to the Committee for approval. KBC has in place environmental and social risk management and mitigation processes which are applicable to all allocation decisions. Sustainalytics considers these risk management systems to be adequate and the project selection process to be in line with market practice.



**MANAGEMENT OF PROCEEDS** KBC’s Treasury team will track the allocation of proceeds on a portfolio basis through an internal information system. KBC intends to allocate all proceeds at issuance. However, if there are any unallocated proceeds, such proceeds will be held in cash, cash equivalents or invested in money market products. This is in line with market practice.



**REPORTING** KBC intends to report on the allocation of proceeds on its website on an annual basis until full allocation. Allocation reporting will include the total amount of proceeds allocated to eligible assets, the allocated amounts per use of proceeds category, the origination timeframe and maturity profile of loans per category, and the amount of unallocated proceeds, if any. In addition, KBC is committed to reporting on relevant impact metrics. Sustainalytics views KBC’s allocation and impact reporting commitments as aligned with market practice.

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<b>Evaluation date</b>	May 4, 2022
<b>Issuer Location</b>	Brussels, Belgium

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## Introduction

KBC Group N.V. (“KBC” or the “Group”) is a banking and insurance group operating in the retail and private banking, insurance, and asset management sectors with small and medium-sized enterprises (SMEs) and mid-cap clients. The Group was formed in 1998 following the merger of two Belgian banks (Kredietbank and CERA Bank) and a Belgian insurance firm (ABB Insurance), and is headquartered in Brussels. As of 2021, KBC had a network of 1,148 bank branches, 310 insurance agencies and various distribution channels in its insurance network across its core markets of Belgium, the Czech Republic, Slovakia, Hungary, Bulgaria and Ireland.

KBC Group N.V. has developed the KBC Social Bond Framework (the “Framework”) under which KBC Group N.V. and its banking subsidiary, KBC Bank N.V. (the “Bank”) – collectively referred to as KBC – intend to issue social bonds and use the proceeds to finance or refinance, in whole or in part, existing and future projects that deliver a positive social impact in Belgium and advance KBC’s sustainability strategy. The Framework defines eligibility criteria in six social categories:

1. Access to Education
2. Affordable Basic Infrastructure for Sport and Culture
3. Hospitals
4. Care Facilities
5. Social Housing
6. SME Loans

KBC engaged Sustainalytics to review the KBC Social Bond Framework, dated April 2022, and provide a Second-Party Opinion on the Framework’s social credentials and its alignment with the Social Bond Principles 2021 (SBP).<sup>1</sup> This Framework has been published in a separate document.<sup>2</sup>

### Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>3</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Social Bond Principles 2021, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.11, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of KBC’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. KBC representatives have confirmed that: (1) they understand it is the sole responsibility of KBC to ensure that the information provided is complete, accurate and up to date; (2) they have provided Sustainalytics with all relevant information and (3) any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

<sup>1</sup> The Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

<sup>2</sup> The KBC Social Bond Framework is available on KBC’s website at: <https://www.kbc.com/en/investor-relations/debt-issuance/kbc-social-bond.html>

<sup>3</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and KBC.

Sustainalytics' Second-Party Opinion, while reflecting the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written for a period of twenty-four (24) months from the evaluation date stated herein.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realized allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that KBC has made available to Sustainalytics for the purpose of this SPO.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the KBC Social Bond Framework

Sustainalytics is of the opinion that the KBC Social Bond Framework is credible and impactful, and aligns with the four core components of the SBP. Sustainalytics highlights the following elements of KBC's Social Bond Framework:

- Use of Proceeds:
  - The eligible categories – Access to Education, Affordable Basic Infrastructure for Sport and Culture, Hospitals, Care Facilities, Social Housing and SME Loans – are aligned with those recognized by the SBP. Sustainalytics expects investments in these categories to deliver a positive social impact in Belgium.
  - Sustainalytics notes that KBC may refinance general corporate purpose loans to public and private hospitals which are accessible to all regardless of ability to pay given the strong presence of a universal healthcare system in Belgium under which care in both public and private hospitals is funded by the government via a health insurance scheme and the public centre for social assistance. Additionally, Sustainalytics notes that while KBC has not defined a lookback period for such refinancing, Sustainalytics does not consider this to be a limitation of the Framework or a deviation from market practice, given that KBC follows a portfolio approach to manage the proceeds of the bonds issued. Nevertheless, Sustainalytics encourages KBC, where feasible, to establish a lookback period for the refinancing of operational expenditures. Sustainalytics further notes KBC's commitment to monitor the lookback period for operating expenditures and report on the share of operational expenditures refinanced under the Framework as part of its annual reporting commitments.
  - Under the Access to Education category, KBC may finance or refinance loans for the provision of access to essential educational infrastructure and services that are accessible to all regardless of ability to pay. Potential expenditures under this category include: (i) construction, extension or refurbishment of equipment and infrastructure, including in kindergarten and universities, and (ii) dedicated training programmes, furniture, learning materials and other equipment in such educational institutions. Sustainalytics notes that the Framework limits financing eligibility to public schools and non-fee-paying private schools, which is aligned with market practice.
  - Under the Affordable Basic Infrastructure for Sport and Culture category, KBC may finance or refinance loans for the development of facilities that provide sports, leisure and cultural activities with an aim to enhance access to such facilities for the general public. Sustainalytics

notes that the Belgian government grants subsidies to municipalities for the implementation of local sports policies in each region and initiatives to ensure that such facilities are accessible by individuals who earn equal to or less than the living wage and people with disabilities.<sup>4,5,6</sup> Sustainalytics further notes that the Framework excludes financing towards exclusive private facilities and considers these investments to provide a positive social impact.

- Under the Hospitals category, KBC may finance or refinance loans for the development, acquisition, construction, extension or refurbishment of hospitals, equipment and other infrastructure. Sustainalytics notes that the Framework limits financing eligibility to public and private hospitals, which are accessible to all regardless of ability to pay. Sustainalytics considers these expenditures to be aligned with market practice, given the strong presence of a universal healthcare system in Belgium, under which care in both public and private hospitals is funded by the government via a health insurance scheme and the public centre for social assistance. KBC may also finance general corporate purpose loans to such hospitals that support universal access to healthcare services. These investments are aligned with market practice.
- Under the Care Facilities category, KBC may finance or refinance loans for the acquisition, construction, extension or refurbishment of equipment and infrastructure related to residential care centres, elderly care centres, disabled care and service flats for the ageing population<sup>7</sup> and people with disabilities. Sustainalytics notes that KBC may finance the development or acquisition of both public and privately operated centres and is of the opinion that, in the Belgian context, investment in such facilities in combination with the social security allowances afforded by the federal and regional governments for both public and private care facilities can expand and ensure access for the target population. Additionally, KBC has informed Sustainalytics that the target population can apply for (i) mandatory federal insurance for medical care and benefits, (ii) integration allowance, (iii) elderly assistance allowance<sup>8</sup>, or (iv) other applicable regional insurance such as the “carebudget” in the Flanders region, which aims to improve the affordability of such facilities to eligible individuals through a maximum monthly allowance of EUR 630.<sup>9</sup> Additionally, KBC has communicated to Sustainalytics that the Public Center for Social Welfare may also extend additional financial support to ensure that it is affordable for the target population. Sustainalytics acknowledges KBC’s role as a loan provider for the development of care facilities and that KBC does not exercise any control over pricing. These investments are aligned with market practice.
- Under the Social Housing category, KBC may finance or refinance loans to government agencies for the development, construction, renovation and maintenance of social housing projects in all the three regions (Flanders, Wallonia and Brussels) within Belgium. Government agencies financed under this category include:
  - Agencies in Flanders, such as Vlaamse Maatschappij Sociale Woningen, which target low-income populations that meet the annual income thresholds – EUR 25,850 for single applicants, EUR 28,015 for single applicants with disabilities and EUR 38,773 for other persons without children, with an increase of EUR 2,167 per dependent.<sup>10</sup>
  - Agencies in Brussels, such as the Brusselse Gewestelijke Huisvestingsmaatschappij, which target populations that meet the following annual income thresholds: EUR

<sup>4</sup> Vlaanderen, “Participation decree: operating subsidy for local networks to promote the leisure participation of people in poverty” at: <https://www.vlaanderen.be/cjm/nl/subsidies/zoekresultaten/participatiedecreet-werkingssubsidie-lokale-netwerken-voor-de-bevordering-van-de>

<sup>5</sup> Vlaanderen, “European Disability Card: Your access to culture, sports and leisure” (2017) at: <https://www.vlaanderen.be/publicaties/european-disability-card-uw-toegang-tot-cultuur-sport-en-vrijtijdsbesteding>

<sup>6</sup> Rechtenverkenner, ‘Sport and Culture Rights’ at: <https://www.rechtenverkenner.be/Pages/Doelgroepen/Doelgroepen.aspx>

<sup>7</sup> In the context of Care Facilities, KBC refers to the minimum age to enter care facilities as set by the different regions to define “aging population”: people aged 60 or older in Wallonia and Brussels-Capital Region, and people aged 65 or older in Flanders. “Les soins aux personnes âgées” at: [https://www.mc.be/media/O-CM-info%20282-LES%20SOINS%20AUS%20PERSONNES%20AGEES-FR\\_tcm49-68702.pdf](https://www.mc.be/media/O-CM-info%20282-LES%20SOINS%20AUS%20PERSONNES%20AGEES-FR_tcm49-68702.pdf). For Flanders, see more at: <https://www.vlaanderen.be/woonzorgcentra-vroeger-rusthuizen>. For Wallonia, see more at: <https://sante.wallonie.be/?q=aines/dispositifs/maison-de-repos-et-de-soins>. For Brussels, see more at: <https://www.iriscare.brussels.nl/burgers/ouderen/rusthuizen/>

<sup>8</sup> The conditions for target populations to obtain the aforementioned benefits are detailed at Social Security Belgium, “Financial help” at: <https://www.socialsecurity.be/citizen/nl/hulp-ocmw/financiele-hulp>

<sup>9</sup> Vlaamse sociale bescherming, “Care budget for elderly people with a care need” at: <https://www.vlaamsesocialebescherming.be/zorgbudget-voor-ouderen-met-een-zorgnood>

<sup>10</sup> Vlaanderen – Vlaamse Maatschappij Voor Sociaal Wonen, “Flemish Society for Social Living” at: <https://www.vmsw.be/Home/lk-ben-particulier/Huren-van-een-sociale-woning/Mag-u-een-sociale-woning-huren/Wat-is-uw-inkomen>

- 24,066.39 for a single person, EUR 26,740.45 for a family with only one income and EUR 30,560.56 for a family with different incomes.<sup>11</sup> Additionally, the agency provides financial aid to support rent payment for target populations that meet the following annual income thresholds: EUR 20,764 for a one-parent family with at least one child, and EUR 12,294 for a single person, and EUR 16,614 for a family of several people.<sup>12</sup>
- Agencies in Wallonia, such as Société Wallonne du Logement which target low-income population that meet the annual income thresholds of EUR 45,100 for a single applicant and EUR 54,500 for a household, with an increase of EUR 2,700 per dependent child.<sup>13</sup>
  - Sustainalytics notes that, while the regional eligibility thresholds are above the median annual incomes of EUR 27,280 in Flanders, EUR 23,942 in Wallonia and EUR 20,427 in Brussels, the aforementioned income thresholds have been developed by the Belgian government as the applicable thresholds within these regions for social housing. Therefore, Sustainalytics views these investments to be aligned with market practice.<sup>14</sup>
- Under the SME loans category, KBC may finance or refinance loans to SMEs<sup>15</sup> in various industries including hospitality, entertainment, leisure services and shipping, where such SMEs are either: (i) located in socio-economically disadvantaged areas, or (ii) impacted by the consequences of extreme events, such as extreme weather and natural disasters, or (iii) significantly impacted by a pandemic crisis such as COVID-19. KBC defines socio-economically disadvantaged areas as regions where the unemployment rate is higher than the average unemployment rate in Belgium, in accordance with Eurostat's Nomenclature of Territorial Units for Statistics.<sup>16</sup> Additionally, Sustainalytics notes that KBC will limit financing in the Brussels-Capital Region to eight of 19 municipalities where the unemployment rate is higher than the average unemployment rate of 7.28% in the region.<sup>17</sup> Sustainalytics notes that KBC intends to identify eligible regions for financing on an annual basis, in accordance with the latest available unemployment rates, and considers investments under this category to be aligned with market practice.
  - Project Evaluation and Selection:
    - KBC has established a multi-step process for project evaluation and selection. Various business units within KBC will identify projects that are in line with the eligibility criteria in the Framework. The business units will submit the shortlisted projects, along with information on the compliance of the projects with the eligibility criteria to KBC's Green and Social Bond Committee (the "Committee").
    - The Committee is comprised of representatives from Group Treasury, Corporate Sustainability and business units when required. The Committee will be responsible for confirming compliance of eligible assets with the criteria under the Framework and provide final approval.
    - The Committee incorporates environmental and social risk management as part of the approval and monitoring process for eligible assets. All assets are screened at source and are subject to applicable regulatory, environmental and social requirements, as well as internal policies including KBC Blacklist, Human Rights, Controversial Regimes and KBC's Credit Risk Standards on Social and Responsible Lending.<sup>18</sup> This process is conducted for all allocation decisions made under the Framework. Sustainalytics considers these environmental and social risk management systems to be adequate and aligned with market expectation. For additional detail, see section 2.

<sup>11</sup> SLRB-BGHM.brussels, "Admission Requirements" at: <https://slrb-bghm.brussels/nl/huurder-woorden/toelatingsvoorwaarden>

<sup>12</sup> Brusselse Gewestelijke Huisvestingsmaatschappij, "Huurtoelage" at: <https://slrb-bghm.brussels/nl/huurder-woorden/toelages-hulp-en-alternatieven>

<sup>13</sup> Société Wallonne du Logement, "Obtenir un logement public", at: <https://www.swl.be/index.php/accueil-particulier/louer>

<sup>14</sup> Statbel, "Tax statistics on income subject to tax on natural persons by municipality of residence", (2021), at:

<https://bestat.statbel.fgov.be/bestat/crosstable.xhtml?view=520b295c-bf04-4768-a14f-fa58a566ab8c>

<sup>15</sup> KBC adopts the European Commission's definition for SMEs. European Commission, "Internal Market, Industry, Entrepreneurship and SMEs" at:

[https://ec.europa.eu/growth/smes/sme-definition\\_en](https://ec.europa.eu/growth/smes/sme-definition_en)

<sup>16</sup> Eurostat, "NUTS – Nomenclature of Territorial Units for Statistics" at: <https://ec.europa.eu/eurostat/web/nuts/background>. As of 2020, the average unemployment rate in Belgium stood at 5.6%. As per the Framework, five regions within Belgium have an unemployment rate higher than the national average: Brussels, Hainaut, Liege, Brabant wallon and Namur.

<sup>17</sup> Ibsa, "Unemployment" at: <https://ibsa.brussels/themes/marche-du-travail/chomage>. The implied average data, as per information available on the website, stands at 7.28%. As per the Framework, eight municipalities within Brussels have an unemployment rate higher than the regional average: Anderlecht; Brussels; Vorst; Koekelberg; Sint-Jans-Molenbeek; Sint-Gillis; Sint-Joost-ten-Node and Schaarbeek.

<sup>18</sup> KBC, "Setting rules and policies" (2022) at: [Setting rules and policies \(kbc.com\)](https://www.kbc.com/setting-rules-and-policies)

- Based on the establishment of a cross departmental committee and the presence of risk management systems, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
  - KBC's Treasury team will be responsible for the management and allocation of proceeds. The team will manage the proceeds on a portfolio basis through internal information systems and will monitor allocations on a quarterly basis.
  - KBC intends to allocate all proceeds to eligible assets at issuance. However, if there are any unallocated proceeds, they will be temporarily held in cash, cash equivalents or invested in money market products.
  - Based on the use of an internal tracking system and disclosure of a temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - KBC intends to report on the allocation of proceeds and the corresponding impact in an allocation report, which will be published on its investor relations website on an annual basis. Allocation reporting will include the total amount of proceeds allocated to eligible assets, the allocated amounts per use of proceeds category, the origination timeframe and maturity profile of loans per category, and the amount of unallocated proceeds, if any.
  - Where feasible, impact reporting may include key performance metrics such as the number of education facilities developed, the number of hospital beds installed, the number of care facilities benefitting from a loan and the number of social housing dwellings, among others.
  - Based on the commitment to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

#### Alignment with Social Bond Principles 2021

Sustainalytics has determined that the KBC Social Bond Framework aligns with the four core components of the SBP. For detailed information please refer to Appendix 1: Social Bond/Social Bond Programme External Review Form.

## Section 2: Sustainability Performance of KBC

#### Contribution of Framework to KBC's sustainability strategy

Sustainalytics is of the opinion that KBC demonstrates a commitment to sustainability by incorporating ESG principles in its corporate sustainability strategy. Encompassed in the KBC Group Sustainability framework, the corporate sustainability strategy focuses on increasing the net positive impact of its operations and portfolio on society, and encouraging responsible behaviour and business ethics.<sup>19</sup>

KBC approaches sustainable finance in its own investments and on behalf of its clients. In 2021, KBC allocated EUR 11.75 billion to environmental projects in the renewable energy and biofuel sector, mortgages for energy efficient housing and low carbon vehicles. In the same year, KBC also invested EUR 7.16 billion in the healthcare and senior living sector, education sector projects and by microfinancing loans and investing in microfinance funds in developing countries through BRS Microfinance Coop.<sup>20</sup> Furthermore, KBC has been increasing its investor base and allocation towards green project financing since 2018 by issuing green bonds under the KBC Green Bond framework 2018.<sup>21,22</sup> In addition to this, KBC, together with the European Investment Bank, launched in 2020 a loan facility of EUR 300 million for Belgian SMEs realizing sustainable projects to encourage sustainable business.<sup>23</sup>

KBC also undertakes responsible investments on behalf of its clients. Specifically, KBC offers three types of responsible investing funds: (i) Best-in-Class funds, where investments are made into companies and countries that perform best on ESG criteria when compared to their peers; (ii) thematic funds, which invest in

<sup>19</sup> KBC, "KBC Group Sustainability framework" (2021) at: [https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/FrameworkPolicies/CSD\\_CorporateSustainabilityFramework.pdf](https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/FrameworkPolicies/CSD_CorporateSustainabilityFramework.pdf)

<sup>20</sup> KBC, "2021 Sustainability Report" (2022) at: <https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/PerfRep/2021/csr-sr-2021.pdf>

<sup>21</sup> KBC, "KBC Green Bond framework" (2018) at: [https://www.kbc.com/content/dam/kbccom/doc/investor-relations/7-Debt-issuance/Green-Bonds/20180605\\_KBC\\_GB\\_Framework.pdf](https://www.kbc.com/content/dam/kbccom/doc/investor-relations/7-Debt-issuance/Green-Bonds/20180605_KBC_GB_Framework.pdf)

<sup>22</sup> KBC, "KBC Green Bond" at: <https://www.kbc.com/en/investor-relations/debt-issuance/kbc-green-bond.html?zone=>

<sup>23</sup> KBC, "Press Release" (2020) at:

[https://www.kbc.com/content/dam/kbccom/doc/newsroom/pressreleases/2020/20200116\\_PB\\_EIBsustainablefinance\\_ENG.pdf](https://www.kbc.com/content/dam/kbccom/doc/newsroom/pressreleases/2020/20200116_PB_EIBsustainablefinance_ENG.pdf)

companies that offer a solution for specific environmental or social issues; and (iii) impact investing funds, which invest in companies whose products and/or services have a positive impact on society and/or the environment.<sup>24</sup> The selection process is carried out through a sustainability screening based on KBC's selection criteria, using data from third-party sustainability research agencies.<sup>25,26</sup> In 2020, KBC aimed to achieve a volume of EUR 30 billion in responsible investment funds by 2025, a target that it achieved in 2021. Moreover, it aims to keep the share of responsible investment funds to the total annual fund allocation higher than 50%.<sup>27,28</sup>

Sustainalytics is of the opinion that the KBC Social Bond Framework is aligned with KBC's overall sustainability strategy and initiatives, and that it will further KBC's action on its key social priorities.

### Approach to managing social and environmental risks associated with the projects

Sustainalytics recognizes that the net proceeds from the bonds issued under the Framework will be directed towards eligible projects that are expected to have a positive social impact. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible projects could include: business ethics; biodiversity risks associated with the disruption of ecosystems from infrastructure development; emissions of waste and pollutants to land, air and water; occupational health and safety; and community relations. While KBC plays a limited role in the execution and development of the individual projects financed, by offering lending and financial services, it is exposed to risks associated with the companies or projects that it may finance.

Sustainalytics is of the opinion that KBC is able to manage or mitigate potential risks by implementing the following:

- To mitigate risks related to business ethics, KBC has developed the KBC Group Ethics and Fraud Policy, which outlines the procedure to report fraud and malpractice regarding internal rules that have been established through policies such as the KBC Code of Conduct, and the KBC Anti-Corruption and Bribery Policy. The Group also provides guidelines on the protection of consumer rights, compliance with applicable laws and regulations, and accurate representation of products, among others.<sup>29,30,31</sup>
- KBC implements the KBC Group Biodiversity Policy to mitigate and reduce the direct and indirect impact of its operations on biodiversity, as well as to increase the sustainable use and management of species and ecosystems. The Group commits to avoiding financing activities that may lead to land use change, overexploitation or putting endangered species at further risk.<sup>32</sup>
- KBC has in place its KBC Group Environmental Policy to mitigate any negative impacts that its operations may have on the environment. It is also certified to the ISO 14001:2015 standard, which aims to provide organizations with a long-term environmental management framework, integrating social and economic needs. KBC is also certified to ISO 50001, an energy management system that helps to efficiently reduce energy use.<sup>33</sup>
- KBC assures occupational health and safety through its KBC Sustainability Code of Conduct for Suppliers, which requires suppliers to comply with applicable labour regulations.<sup>34</sup> KBC follows the

<sup>24</sup> KBC, "Socially Responsible Investments" at: <https://www.kbc.com/en/investments.html>

<sup>25</sup> Ibid.

<sup>26</sup> KBC, "Policies of Sustainable & Socially Responsible Investment Funds (SRI)" (2021) at: <https://multimediafiles.kbcgroup.eu/ng/published/kbc/zip/SRI-Uitsluitingen-EN.pdf>

<sup>27</sup> KBC, "KBC Group Sustainability framework" (2021) at: [https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/FrameworkPolicies/CSD\\_CorporateSustainabilityFramework.pdf](https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/FrameworkPolicies/CSD_CorporateSustainabilityFramework.pdf)

<sup>28</sup> KBC, "2021 Sustainability Report" (2022) at: <https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/PerfRep/2021/csr-sr-2021.pdf>

<sup>29</sup> KBC, "KBC Group Ethics & Fraud Policy" (2012) at: [https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/OurApproach/CSR\\_OA\\_policy\\_KBCGroupEthicsandFraudPolicy.pdf](https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/OurApproach/CSR_OA_policy_KBCGroupEthicsandFraudPolicy.pdf)

<sup>30</sup> KBC, "Code of conduct" (2020) at: [https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/OurApproach/CSR\\_OA\\_policy\\_CodeofConductforKBCGroupEmployees\\_MAR14.pdf](https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/OurApproach/CSR_OA_policy_CodeofConductforKBCGroupEmployees_MAR14.pdf)

<sup>31</sup> KBC, "KBC Group Anti-Corruption and Bribery Policy" (2021) at: [https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/OurApproach/CSR\\_OA\\_policy\\_AntiCorruptionPolicyStatement.pdf](https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/OurApproach/CSR_OA_policy_AntiCorruptionPolicyStatement.pdf)

<sup>32</sup> KBC, "KBC Group Biodiversity Policy" at: [https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/FrameworkPolicies/CSD\\_KBCGroupBiodiversityPolicy\\_May2020.pdf](https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/FrameworkPolicies/CSD_KBCGroupBiodiversityPolicy_May2020.pdf)

<sup>33</sup> KBC, "KBC Group Environmental Policy" at: [https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/FrameworkPolicies/CSD\\_KBCGroupEnvironmentalPolicy\\_en.pdf](https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/FrameworkPolicies/CSD_KBCGroupEnvironmentalPolicy_en.pdf)

<sup>34</sup> KBC, "KBC Sustainability Code of Conduct for Suppliers" at: [https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/OurApproach/CSR\\_OA\\_policy\\_GroupSupplierPolicy.pdf](https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/OurApproach/CSR_OA_policy_GroupSupplierPolicy.pdf)

UN standard on respecting human rights and commits to due diligence processes outlined in its KBC Group Policy on Human Rights.<sup>35</sup> Moreover, through the KBC Modern Slavery Act Statement, the Group takes further responsibility to collaborate with all its stakeholders towards eradicating modern slavery from any of their business implications.<sup>36</sup>

- KBC aims to deliver positive impact on community relations through its KBC Group Community Involvement Policy. This outlines activities such as financial literacy, entrepreneurship, longevity and environmental responsibility, which benefit societal engagement.<sup>37</sup> Furthermore, KBC has created the KBC Group Investor Relations Policy to define the principles and mechanisms used to communicate with its shareholders and debt holders.<sup>38</sup>
- KBC has been a signatory to the Equator Principles (EP) since 2004.<sup>39</sup> The EP create a benchmark and a risk management framework for financial institutions to identify, assess and manage environmental and social risks.<sup>40,41</sup> Furthermore, as a participant in the UN Global Compact since 2006, the Company conforms to its 10 principles on human rights, labour, environment and anticorruption.<sup>42,43</sup>
- In order to assure the ESG management standard in KBC's Responsible Investing, in 2016, the Group became a signatory of the UN Principles for Responsible Investment, which are embodied in its general investment policy.<sup>44,45</sup>

Based on these policies, standards and assessments, Sustainalytics is of the opinion that KBC has implemented adequate measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

### Section 3: Impact of Use of Proceeds

All six use of proceeds categories are aligned with those recognized by the SBP. Sustainalytics has focused on the two below where the impact is specifically relevant in the local context.

#### The importance of expanding access to healthcare in Belgium

The Belgian healthcare system is based on a mandatory national health insurance scheme. Care is provided by both public and private institutions, with direct access to and free choice of physicians and healthcare facilities, including specialist treatment. Coverage is near universal in Belgium, with approximately 99% of Belgian residents covered for a broad range of health services and goods. The health system is funded primarily through social contributions proportional to income, and patients contribute to the funding of the system through direct out-of-pocket payments.

Life expectancy in Belgium was 80.9 years in 2020, slightly above the EU average of 80.6 years. While access to and quality of healthcare in Belgium is good, there are gaps between the unmet medical and care needs by income group. In 2019, approximately 4% of people in the lowest income quintile reported unmet care needs, primarily due to affordability, contrasted with 0.2% in the top income quintile. This disparity is the largest

<sup>35</sup> KBC, "KBC Group Policy on Human Rights" at: [https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/FrameworkPolicies/CSD\\_KBCGroupPolicyonHumanRights.pdf](https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/FrameworkPolicies/CSD_KBCGroupPolicyonHumanRights.pdf)

<sup>36</sup> KBC, "KBC Modern Slavery Act Statement" (2020) at: <https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/FrameworkPolicies/CSD-Modern-Slavery-Act-Statement-en.pdf>

<sup>37</sup> KBC, "KBC Group Community Involvement Policy" at: [https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/OurApproach/CSR\\_OA\\_policy\\_CommunityInvolvementPolicyfortheGroup.pdf](https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/OurApproach/CSR_OA_policy_CommunityInvolvementPolicyfortheGroup.pdf)

<sup>38</sup> KBC, "KBC Group Investors Relations Policy" at: <https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/FrameworkPolicies/20210625-kbc-group-investor-relations-policy.pdf>

<sup>39</sup> KBC, "Equator Principles" at: <https://www.kbc.com/en/corporate-sustainability/limiting-our-adverse-impact/equator-principles.html>

<sup>40</sup> Equator Principles, "EP4" (2020) at: [https://equator-principles.com/app/uploads/The-Equator-Principles\\_EP4\\_July2020.pdf](https://equator-principles.com/app/uploads/The-Equator-Principles_EP4_July2020.pdf)

<sup>41</sup> KBC, "Equator Principles" at: <https://www.kbc.com/en/corporate-sustainability/limiting-our-adverse-impact/equator-principles.html>

<sup>42</sup> UN Global Compact, "KBC Group" at: <https://www.unglobalcompact.org/what-is-gc/participants/5780>

<sup>43</sup> KBC, "KBC Group - UN Global Compact Communication on Progress", (2020) at: [https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/FrameworkPolicies/CSD\\_COP\\_KBCGroup.pdf](https://www.kbc.com/content/dam/kbccom/doc/sustainability-responsibility/FrameworkPolicies/CSD_COP_KBCGroup.pdf)

<sup>44</sup> UN Principles for Responsible Investment, "KBC Asset Management NV" at: <https://www.unpri.org/signatory-directory/kbc-asset-management-nv/2349.article>

<sup>45</sup> KBC, "Socially Responsible Investments" at: <https://www.kbc.com/en/corporate-sustainability/limiting-our-adverse-impact/socially-responsible-investments.html>

among all western European countries and above the EU average.<sup>46,47</sup> Additionally, the share of the Belgian population aged 67 years or older is expected to rise from approximately 17% in 2019 to 24% in 2070.<sup>48</sup> This demographic ageing implies an increasing number of elderly people requiring the use of care facilities.

In 2019, the proportion of practicing doctors in Belgium was 3.2 per 1,000 inhabitants, nearly 16% below the EU average of 3.8. Furthermore, between 2009 and 2019, the proportion of doctors to inhabitants grew at a slower rate in Belgium than in other EU countries. While the number of nurses had increased to 11.1 per 1,000 inhabitants in 2018 compared to 9.3 in 2008, the patient-to-nurse ratio (9.4) remains high in hospitals across the country.<sup>49</sup> To address the shortage of nurses and doctors in Belgium, in 2021, the government allocated EUR 400 million to increase the remuneration of nurses in hospitals and EUR 600 million to make healthcare careers more attractive.

In 2018, Belgium allocated 0.7% of its GDP to capital expenditure on healthcare infrastructure, medical equipment and technology.<sup>50</sup> In 2020, Belgium provided a EUR 2 billion cash advance to hospitals along with a one-off allowance of approximately EUR 1.2 billion for COVID-19 related expenditures. Furthermore, in 2021, Belgium increased its budgetary target for public spending on healthcare by 7.5%, from approximately EUR 28 billion to EUR 30 billion. Belgium's Recovery and Resilience plan was adopted in 2021 and was allocated a budget of nearly EUR 100 million for investment in the healthcare system, with a focus on e-health, nuclear medicine and creating a European School of Biotechnology.<sup>51</sup>

Based on the above, Sustainalytics is of the opinion that KBC's financing of the development, acquisition and refurbishment of infrastructure and equipment in hospitals and care facilities will provide increased access to healthcare in Belgium.

### The impact of affordable housing in Belgium

In several EU countries, the shortage of affordable housing is a considerable challenge with housing prices and rents increasing relative to income since 2014<sup>52</sup>. Causes of the shortage are factors such as a mismatch between the demand and supply of social housing stock, increased housing prices and rents relative to income, and the privatization of social housing.<sup>53,54</sup> In 2020, the EU Parliament adopted a resolution recognizing access to housing as a fundamental human right.<sup>55</sup>

In 2019, Belgium's share of social housing stock was among the lowest in the EU, with social housing representing 5.4% of the country's total dwelling stock.<sup>56,57</sup> Furthermore, 10% of the low-income population in Belgium live in overcrowded dwellings, while 30% of low-income private renters and 26% of homeowners with a mortgage are overburdened by their housing costs.<sup>58</sup>

COVID-19 related impacts on poverty, increasing applications for social housing and an increase in single-person households suggest that a lack of affordable housing in the private sector is leading to a greater demand for social housing.<sup>59</sup> In Belgium, social housing is governed separately by its three regional governments. As of September 2020, over 49,000 households, or 10.5% of the total population of the Brussels-

<sup>46</sup> OECD and European Observatory on Health Systems and Policies "Belgium: Country Health Profile 2021" at: <https://www.oecd-ilibrary.org/docserver/57e3abb5-en.pdf?expires=1648637136&id=id&accname=guest&checksum=68A3962186ED5EF80ECD7A6B0DE4A7D8>

<sup>47</sup> KCE and European Observatory on Health Systems and Policies "Belgium Health System Review 2020" at: <https://apps.who.int/iris/bitstream/handle/10665/339168/HinamiT-22-5-2020-eng.pdf>

<sup>48</sup> Federaal Planbureau & Statbel, "Demografische vooruitzichten 2019-2070" (2020) at [https://www.plan.be/uploaded/documents/202006020559070.REP\\_POP1970Covid19\\_12154\\_N.pdf](https://www.plan.be/uploaded/documents/202006020559070.REP_POP1970Covid19_12154_N.pdf)

<sup>49</sup> KCE, "Performance of the Belgian health system – Report 2019" at: [https://kce.fgov.be/sites/default/files/atoms/files/KCE\\_313C\\_Performance\\_Belgian\\_health\\_system\\_Report.pdf](https://kce.fgov.be/sites/default/files/atoms/files/KCE_313C_Performance_Belgian_health_system_Report.pdf)

<sup>50</sup> OECD and European Commission, "Health at a Glance: Europe 2020 : State of Health in the EU Cycle" at: <https://www.oecd-ilibrary.org/sites/82129230-en/index.html?itemId=/content/publication/82129230-en>

<sup>51</sup> OECD and European Observatory on Health Systems and Policies, "Belgium: Country Health Profile 2021" at: <https://www.oecd-ilibrary.org/docserver/57e3abb5-en.pdf?expires=1648637136&id=id&accname=guest&checksum=68A3962186ED5EF80ECD7A6B0DE4A7D8>

<sup>52</sup> OECD, "Housing prices" at: <https://data.oecd.org/price/housing-prices.htm>

<sup>53</sup> European Parliament, "Parliament calls for action to solve housing crisis" at: <https://www.europarl.europa.eu/news/en/headlines/society/20210114ST095643/parliament-calls-for-action-to-solve-housing-crisis>

<sup>54</sup> Euro Cities, "Housing affordability: A European crisis" at: <https://eurocities.eu/latest/housing-affordability-a-european-crisis/>

<sup>55</sup> European Parliament, "EU should set goal to end homelessness by 2030" at: <https://www.europarl.europa.eu/news/en/press-room/20201120IPR92124/eu-should-set-goal-to-end-homelessness-by-2030>

<sup>56</sup> Housing Europe report, "The State of Housing in Europe 2021" at: [https://www.stateofhousing.eu/The\\_State\\_of\\_Housing\\_in\\_the\\_EU\\_2021.pdf](https://www.stateofhousing.eu/The_State_of_Housing_in_the_EU_2021.pdf)

<sup>57</sup> OECD, Social Housing Policy Brief, "Social housing: A key part of past and future housing policy" (2020) at: <https://www.oecd.org/social/social-housing-policy-brief-2020.pdf>

<sup>58</sup> OECD, "Affordable Housing Database" at: <https://www.compareyourcountry.org/housing/en/1/all/default>

<sup>59</sup> Steunpunt Wonen, "The functioning of the Flemish housing market. A synthesis of five years of housing market research" at: [https://archieff.steunpuntwonen.be/Documenten\\_2016-2020/Onderzoek\\_Werkpakketten/WP\\_5\\_Werking\\_van\\_de\\_woningmarkt/WP5-10\\_TOELICHTING.html](https://archieff.steunpuntwonen.be/Documenten_2016-2020/Onderzoek_Werkpakketten/WP_5_Werking_van_de_woningmarkt/WP5-10_TOELICHTING.html)

Capital Region, were on social housing waitlists. In Flanders, 17% of private tenants, or around 92,100 households, were on a social housing waitlist in 2018. As of 2020, the problem was less acute in Wallonia, with 40,000 households, or approximately 2.5% of households, registered on social housing waitlists.

In order to close this gap, the three regional governments are taking steps to increase the amount and quality of social housing. The Brussels-Capital regional government allocated EUR 190 million in July 2020 to its Emergency Housing Plan to construct or acquire 4,650 new social housing units, support 12,800 beneficiaries through a new rent allowance scheme and to make 2,500 affordable housing units available through social rental agencies.<sup>60</sup> In 2020, the Flemish government, through the Vlaamse Veerkracht (Flemish Resilience) plan, allocated EUR 250 million for new construction of social housing and EUR 30 million for energy renovation for existing homes.<sup>61</sup> The Walloon government, in 2020, announced a EUR 1.2 billion renovation plan with the objective of building 3,000 new public housing units by 2024 and improving the energy performance of 25,000 social housing units.<sup>62</sup>

Given this context, Sustainalytics is of the opinion that KBC’s financing of the development, renovation and maintenance of social housing in Belgium is expected to generate a positive social impact by increasing the availability and accessibility of affordable housing for low-income populations.

### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The bonds issued under the KBC Social Bond Framework are expected to advance the following SDGs and targets.

Use of Proceeds Category	SDG	SDG target
Access to Education	4. Quality Education	4.1 By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes
	8. Decent Work and Economic Growth	8.6 By 2020, substantially reduce the proportion of youth not in employment, education or training <sup>63</sup>
Affordable Basic Infrastructure for Sport and Culture	10. Reduced Inequalities	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status
Hospitals	3. Good Health and Wellbeing	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
	9. Industry, innovation and infrastructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support

<sup>60</sup> Gouvernement de la Région de Bruxelles-Capitale, “Emergency Housing Plan” (2020) at: [https://nawalbenhamou.brussels/wp-content/uploads/2021/01/Plan-Urgence-Logement\\_DEF.pdf](https://nawalbenhamou.brussels/wp-content/uploads/2021/01/Plan-Urgence-Logement_DEF.pdf)

<sup>61</sup> Vlaamse Regering, “Vlaamse Veerkracht” (2020) at: <https://www.vlaanderen.be/publicaties/relanceplan-vlaamse-regering-vlaamse-veerkracht>

<sup>62</sup> Government of Wallonia website, “20 million euros released for the construction of public housing”, at: <https://www.wallonie.be/fr/actualites/la-wallonie-investit-plus-dun-milliard-deuros-pour-renover-les-logements-publics#:~:text=Le%20plan%20de%20r%C3%A9novation%20des,de%2025.000%20logements%20sociaux%20wallons.>

<sup>63</sup> UN Statistics Division, “Progress summary for SDG targets with a 2020 deadline” at: <https://unstats.un.org/sdgs/report/2020/progress-summary-for-SDG-targets/>; Sustainalytics notes that this SDG target represents an interim goal established by the UN in 2015 as a pathway to achieve sustainable development by 2030 and has not since been updated. However, in 2019, the UN reported that 22% of the world’s youth were not employed or engaged in education or training. Considering that this share has not increased significantly since 2005, Sustainalytics recognizes the continued need for investment toward the achievement of this target and considers it to be relevant and impactful in the context of this Framework.

		economic development and human well-being, with a focus on affordable and equitable access for all
Care Facilities	3. Good Health and Wellbeing	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
	9. Industry, innovation and infrastructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all
Social Housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
SME Loans	9. Industry, innovation and infrastructure	9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets
	8. Decent Work and Economic Growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services

## Conclusion

Based on the above, Sustainalytics is confident that KBC is well positioned to issue social bonds and that the KBC Social Bond Framework is robust, transparent and in alignment with the core components of the Social Bond Principles 2021. KBC has developed the KBC Social Bond Framework, under which it intends to issue social bonds and use the proceeds to finance projects to provide access to education, infrastructure for sport and culture, hospitals, elderly care facilities, social housing and financing for SMEs. Sustainalytics expects the projects funded by the social bond proceeds to provide a positive social impact in Belgium.

The KBC Social Bond Framework outlines a process for tracking, allocating and managing proceeds, and makes commitments for KBC to report on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the KBC Social Bond Framework is aligned with the overall sustainability strategy of the Bank and that the social use of proceeds categories will contribute to the advancement of UN Sustainable Development Goals 3, 4, 8, 9, 10 and 11. Additionally, Sustainalytics is of the opinion that KBC has adequate measures to identify, manage and mitigate the environmental and social risks commonly associated with the eligible projects funded by the proceeds.

Based on the above, Sustainalytics is confident that KBC is well positioned to issue social bonds, and that the KBC Social Bond Framework is robust, transparent and in alignment with the core components of the Social Bond Principles 2021.

## Appendices

### Appendix 1: Social Bond/ Social Bond Programme - External Review Form

#### Section 1. Basic Information

Issuer name: KBC Group N.V. and KBC Bank N.V.

Social Bond ISIN or Issuer Social Bond Framework Name, if applicable: KBC Social Bond Framework

Review provider's name: Sustainalytics

Completion date of this form: May 4, 2022

Publication date of review publication:  
Original publication date *[please fill this out for updates]*.

#### Section 2. Review overview

##### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarize the scope of the review.

The review assessed the following elements and confirmed their alignment with the SBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

##### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other (please specify):                                |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

##### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Evaluation Summary above.

### Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

#### 1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The eligible categories for the use of proceeds – Access to Education, Affordable Basic Infrastructure for Sport and Culture, Hospitals, Care Facilities, Social Housing and SME Loans – are aligned with those recognized by the Social Bond Principles 2021. Sustainalytics considers that investments in the eligible categories are expected to lead to positive social impact in Belgium and advance the UN Sustainable Development Goals, specifically SDGs 3, 4, 8, 9, 10 and 11.

#### Use of proceeds categories as per SBP:

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Affordable basic infrastructure   | <input checked="" type="checkbox"/> Access to essential services                                   |
| <input checked="" type="checkbox"/> Affordable housing  | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security  | <input type="checkbox"/> Socioeconomic advancement and empowerment                                 |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify):   |

If applicable please specify the social taxonomy, if other than SBP:

#### 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

KBC has established a Green and Social Bond Committee (the “Committee”), comprised of representatives from Treasury, Corporate Sustainability and business units where required. Different business units will be responsible for evaluating and selecting projects, and submitting them to the Committee for approval. KBC has in place environmental and social risk management and mitigation processes which are applicable to all allocation decisions. Sustainalytics considers these risk management systems to be adequate and the project selection process to be in line with market practice.

#### Evaluation and selection

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer’s social objectives                                   | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Social Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available        | <input type="checkbox"/> Other (please specify):  |

### Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification       In-house assessment
- Other (please specify):

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

KBC's Treasury team will track the allocation of proceeds on a portfolio basis through an internal information system. KBC intends to allocate all proceeds at issuance. However, in case of any unallocated proceeds, such proceeds will be held in cash, cash equivalents or invested in money market products. This is in line with market practice.

#### Tracking of proceeds:

- Social Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

#### Additional disclosure:

- Allocations to future investments only       Allocations to both existing and future investments
- Allocation to individual disbursements       Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds       Other (please specify):

### 4. REPORTING

Overall comment on section (*if applicable*):

KBC intends to report on the allocation of proceeds on its website on an annual basis until full allocation. Allocation reporting will include the total amount of proceeds allocated to eligible assets, the allocated amounts per use of proceeds category, the origination timeframe and maturity profile of loans per category, and the amount of unallocated proceeds, if any. In addition, KBC is committed to reporting on relevant impact metrics. Sustainalytics views KBC's allocation and impact reporting commitments as aligned with market practice.

#### Use of proceeds reporting:

- Project-by-project       On a project portfolio basis
- Linkage to individual bond(s)       Other (please specify):

**Information reported:**

- Allocated amounts  Social Bond financed share of total investment
- Other (please specify):

**Frequency:**

- Annual  Semi-annual
- Other (please specify):

**Impact reporting:**

- Project-by-project  On a project portfolio basis
- Linkage to individual bond(s)  Other (please specify):

**Information reported (expected or ex-post):**

- Number of beneficiaries  Target populations
- Other ESG indicators (*please specify*):

<b>Access to Essential Services – Education</b>	
Access to education	• Number of education facilities, and/or initiatives benefiting from a loan
Affordable basic infrastructure for sport and culture	• Number of sport and culture facilities benefiting from a loan, including a breakdown between sport and culture • Number of beneficiaries
<b>Access to Essential Services – Health</b>	
Financing of hospitals	• Number of hospital beds • Number of consultations • Number of hospitalizations, including day hospitalizations • Number of emergency contacts • Number of FTE
Financing of care facilities	• Number of care facilities benefiting from a loan • Number of beds
<b>Affordable Housing</b>	
Social housing	• Number of dwellings • Number of beneficiaries
<b>Employment Generation</b>	
SME loans	• Number of newly created companies • Number of SMEs benefiting from a loan • Estimated number of employees retained in the SMEs benefiting from the loans

**Frequency:**

- Annual  Semi-annual

Other (please specify):

**Means of Disclosure**

- |   |   |
|---|---|
| <input type="checkbox"/> Information published in financial report  | <input type="checkbox"/> Information published in sustainability report |
| <input checked="" type="checkbox"/> Information published in ad hoc documents   | <input type="checkbox"/> Other (please specify):                        |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): |   |

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS** (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**

**Type(s) of Review provided:**

- |  |  |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit                        | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other (please specify):                     |  |

**Review provider(s):**

**Date of publication:**

**ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE SBP**

- i. **Second-Party Opinion:** An institution with social expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Social Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Social Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the social features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or social criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Social Bond proceeds, statement of social impact or alignment of reporting with the SBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Social Bond or associated Social Bond framework or Use of Proceeds certified against a recognised external social standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Social Bond Scoring/Rating:** An issuer can have its Social Bond, associated Social Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include

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a focus on social performance data, process relative to the SBP, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material social risks.

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