



KBC
Green Bond framework

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1. Introduction

1.1 KBC's approach to corporate sustainability

Based in Belgium, KBC (including KBC Group, KBC Bank and its subsidiaries, and referred together as “KBC” or “we”) is a leading European financial group with a focus on providing bank-insurance products and services to retail, SME and mid-cap clients, mainly in its core countries: Belgium, Bulgaria, the Czech Republic, Hungary, Ireland and Slovakia.

KBC's sustainability strategy is oriented towards **real societal needs and the corresponding UN Global Sustainable Development Goals (“SDGs”)**. We focus on areas in which we can make a difference through our core activities, and more specifically on the following SDGs:

- SDG 7 on “Affordable and Clean Energy” & SDG 13 on “Climate Action”,
- SDG 8 on “Decent Work and Economic Growth”, and
- SDG 12 on “Responsible Consumption and Production”.

One of the four interacting cornerstones of the KBC Corporate Strategy is ‘Role in Society’: KBC takes its **responsibility towards the society and local economies** very seriously as part of its day-to-day business activities. Sustainability is embedded into the strategic decision-making and core business operations throughout the entire group, via the Sustainability Governance model¹, as a key driver for sustainability implementation.

KBC applies **strict sustainability policies and exclusionary criteria**² to its business activities in respect of human rights, business ethics, the environment and sensitive/controversial societal issues.

- We have clear policies in place to limit the environmental impact of our core activities within our portfolio of loans, investments and insurance activities.
- Being a signatory of the Equator Principles since 2004, we only provide project financing or advisory services to clients complying with the processes and policies of the Equator Principles.
- Notably, in 2016 we have tightened our policy to the energy sector and decided to stop financing coal-related activities (except at this stage for the Czech Republic where such financing is being phased out and the policy was further tightened in 2018).
- As part of its energy sector policy, KBC also abstains from financing oil-based electricity production, as well as unconventional oil and gas projects.

On the asset management side, KBC displays a **strong approach towards Socially Responsible Investments (“SRI”)**:

- For the last decade, KBC has been a pioneer and a market leader in Belgium, offering a full range of SRI funds to its retail and institutional clients.
- The ambition to double the total volume of sustainable investment funds to EUR 5 billion by 2018 has already been met by the middle of 2017, ahead of target. A new ambition level is set to raise the target to EUR 10 billion of SRI funds by year-end 2020.
- As from November 2017, the fossil fuels sector has been eliminated from all KBC SRI funds.
- In 2018, as first Belgian financial institution, KBC launched an SRI pension savings fund.

¹ See our Corporate Sustainability Governance on <https://www.kbc.com/en/making-it-work-governance>

² See our Group Sustainability Framework https://www.kbc.com/en/system/files/doc/sustainability-reponsability/FrameworkPolicies/CSD_CorporateSustainabilityFramework.pdf

KBC supports the recommendations of the Task Force on Climate-related Financial Disclosures (“TCFD”), endorses the UN Global Compact and is a member of UNEP FI. KBC also supports the Energy efficient Mortgages Action Plan (EeMAP), which aims to create a standardised energy efficient mortgage offering.

As stated in our Environmental Policy³, KBC aims to **increase its positive impact on society** in those areas where we can make a difference through our everyday activities as a bank-insurer and asset manager. We have identified the following sustainability focus domains, in which we have the opportunity to address social and environmental challenges in a way that creates value for both KBC and society:

- Financial literacy
- Environmental responsibility
- Entrepreneurship
- Longevity and health

Specifically on Environmental responsibility, we take initiatives to promote energy efficiency in homes, buildings and mobility, and we support the financing of renewable energy. A number of these initiatives are incorporated in this Green Bond Framework and are mobilising KBC corporate and retail bankers across our organisation, such as the project finance, and real estate teams, to develop business solutions to promote and provide financing for energy efficiency and renewable energy.

For more information, please see the KBC Sustainability Report⁴ prepared in accordance with the GRI Standards.

1.2 Background of the Green Bond Framework

KBC is convinced that the financial industry has a key role to play in the transition to a low carbon economy and is willing to contribute to the development of a sustainable financial market.

Backed by the inaugural EUR 4.5bn Green OLO issued by the Kingdom of Belgium in February 2018, KBC Group, as a leading financial group in Belgium, is implementing a comprehensive sustainability bond strategy, starting in 2018 with the publication of this inaugural Green Bond Framework, to support the development of the Green Bond markets in Belgium and Europe.

Green funding provides an opportunity for KBC to further enhance its ability to finance the green projects of its clients and to mobilise all its stakeholders around this objective.

KBC Green Bonds can be issued under this Framework via KBC Group NV, KBC Bank NV or any of its other subsidiaries (collectively referred to as “KBC”). If KBC issues a KBC Green bond at the level of KBC Group NV, it will allocate an equivalent amount of the KBC Green Bond proceeds to KBC Bank NV or its relevant subsidiaries where the Eligible Assets (as defined in 2.1.) are located. The KBC Green Bond Framework is intended to accommodate secured and unsecured transactions in various formats and currencies. Further details will be provided in the applicable announcements and transaction documentation.

³ www.kbc.com/en/system/files/doc/sustainability-reponsability/FrameworkPolicies/CSD_KBCgroupEnvironmentalPolicy_en.pdf

⁴ www.kbc.com/en/system/files/doc/sustainability-reponsability/PerfRep/2017/CSR_SR_2017_en.pdf

The KBC Green Bond Framework is in line with the Green Bond Principles, 2017. KBC intends to align its Green Bond Framework with emerging good practices, such as a potential European Green Bond Standard (“EU GBS”) or other forthcoming regulatory requirements and guidelines.

2. Green Bond Framework

The KBC Green Bond Framework is presented through the following core components, which follow the voluntary guidelines of the Green Bond Principles:

1. Use of proceeds
2. Process for project evaluation and selection
3. Management of proceeds
4. Reporting
5. External review

2.1 Use of Proceeds

An amount equivalent to the proceeds of Green Bond (“Use of Proceeds”) issuances is exclusively used to finance or refinance, in whole or in part, projects and activities in the following categories:

- 1) Renewable Energy, 2) Energy Efficiency, 3) Clean Transportation, 4) Green Buildings, 5) Pollution Prevention & Control, 6) Water Management and 7) Sustainable Land Use.**

To qualify as Green Bond Eligible Assets (**‘Eligible Assets’**), the selected loans are required to meet the following eligibility criteria:

Category	Eligibility criteria
1. Renewable Energy	
<i>Renewable energy power generation</i>	<ul style="list-style-type: none"> • Loans to finance equipment, development, manufacturing, construction, operation, distribution and maintenance of renewable energy generation sources: <ul style="list-style-type: none"> ○ Onshore and offshore wind energy ○ Solar energy ○ Geothermal energy (with direct emissions ≤ 100g CO2/kWh) ○ Energy from biomass, that is: <ul style="list-style-type: none"> ▪ not grown in areas converted from land with previously high carbon stock such as wetlands or forests ▪ not obtained from land with high biodiversity such as primary forests or highly biodiverse grasslands ▪ not suitable for human consumption ▪ and subject to sustainable transport⁵: no excessive transport of input material or end product ○ Waste-to-energy
2. Energy Efficiency	
<i>KBC ‘Green Energy Loans’</i>	<ul style="list-style-type: none"> • ‘Green energy loans’ for home improvements of KBC retail clients where at least 50% of the home improvements are for energy-efficiency purposes, including:

⁵ As normal course of business, except for some small local biomass plants, all biomass related projects of KBC are screened on case-by-case basis by the KBC Corporate Sustainability Department

	<ul style="list-style-type: none"> o new central heating or solar boilers o water pumps and other geothermal energy systems o high-efficiency glazing o new insulation o thermostatic taps o solar panels o energy audits <p>Note: As retail clients are required to use at least 50% of the loan for energy-efficiency purposes, conservatively 50% of the outstanding loan amount is viewed as 'eligible'.</p>
3. Clean Transportation	
<i>Low carbon land transport</i>	<ul style="list-style-type: none"> • Loans to finance low carbon land transport: <ul style="list-style-type: none"> o Public passenger transport, including electric, hybrid-electric, hydrogen or other non-fossil fuel vehicles, rail transport, metros, trams, cable cars, and bicycle schemes o Private light-duty and heavy goods vehicles that are electric, hybrid-electric, hydrogen or other non-fossil fuel based. o Dedicated freight railway lines (excluding transport with the main objective of transporting fossil fuels) o Supporting infrastructure for low carbon land transport e.g. IT upgrades, signalling, communication technologies and charging infrastructure
4. Green Buildings	
<i>Residential real estate</i>	<ul style="list-style-type: none"> • 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.
<i>Commercial real estate</i>	<ul style="list-style-type: none"> • New or recently built commercial real estate buildings belonging to the top 15% of the commercial real estate building stock in terms of energy performance in the country of location, or which have obtained any of the following green building certificates: <ul style="list-style-type: none"> o LEED: [≥ "Gold"] o BREEAM: [≥ "Very Good"] o HQE: [≥ "Excellent"]
5. Pollution Prevention & Control	
<i>Waste reduction & recycling</i>	<p>Loans to finance equipment, development, manufacturing, construction, operation and maintenance of facilities and infrastructure for waste prevention, reduction and recycling, including:</p> <ul style="list-style-type: none"> o sharing, repairing, reusing, refurbishing and remanufacturing of goods and recycling of waste
6. Water Management	
<i>Sustainable water & wastewater management</i>	<p>Loans to finance equipment, development, manufacturing, construction, operation and maintenance of:</p> <ul style="list-style-type: none"> o water recycling and wastewater treatment facilities o water storage facilities o water distribution systems with improved efficiency/quality o urban drainage systems o flood mitigation infrastructure, such as infiltration infrastructure

7. Sustainable Land Use

Sustainable land use

Loans to finance sustainable land use:

- o Sustainable agriculture in the EU, comprised of organic farming as certified in compliance with the EU and national regulation
- o Environmentally-sustainable forestry⁶ including afforestation or reforestation, and preservation or restoration of natural landscapes soil remediation

2.2 Process for project evaluation and selection

The Use of Proceeds categories of this Framework are aligned with the strategy and corporate sustainability approach of KBC. The underlying Eligible Assets are expected to comply with local laws and regulations, including any applicable regulatory environmental and social requirements. The Eligible Assets are furthermore evaluated by an assessment against KBC's sustainability policies and the standards of the KBC Group Sustainability Framework (including the exclusionary criteria) where applicable.

KBC business units provide information on the compliance of the projects with the criteria for Eligible Assets (as per 2.1).

Upon submission of projects by the business units, the Green Bond Committee, comprised of representatives including at least one general manager from Group Treasury, Corporate Sustainability and representatives from the business units (when required), will verify the compliance of the projects with the Use of Proceeds requirements and select projects as Eligible Assets. The Green Bond Committee also verifies that all selected Eligible Assets comply with the standards of the KBC Group Sustainability Framework, where applicable.

The Green Bond Committee will document the assessment process with the view to demonstrate to an independent auditor that funded loans meet the applicable eligibility criteria.

2.3 Management of Proceeds

The net proceeds of the Green Bonds will be managed by the Treasury team of KBC Group on a portfolio basis. As long as the Green Bonds are outstanding, it is intended to exclusively allocate an amount equivalent to the net proceeds to a Green Bond portfolio of Eligible Assets in line with the above mentioned eligibility criteria and evaluation and section process. KBC will individually label all allocated Eligible Assets in its internal information systems and will monitor these allocations on a monthly basis. If an asset no longer meets the eligibility criteria, KBC will remove the loan from the Green Bond portfolio and will strive to replace it with an Eligible Asset as soon as possible, subject to availability.

Pending the full allocation of the proceeds to Eligible Assets, or in case insufficient Eligible Assets are available, KBC commits to hold the balance of net proceeds not allocated to Eligible Assets within the treasury of the Group, invested in money market products, cash and/or cash equivalent.

Based on the internal monitoring of the portfolio of Eligible Assets, the Green Bond Committee will review and approve allocations of bond proceeds to Eligible Assets on a quarterly basis.

⁶ Defined as PEFC or FSC certified forestry

2.4 Reporting

KBC has the ambition to regularly provide investors with information on both the allocation of proceeds and the non-financial impact of the Eligible Assets included in its Green Bond portfolio.

2.4.1 Allocation of proceeds reporting

On at least an annual basis KBC will prepare a report to update investors on the allocation of the net proceeds of the Green Bonds to Eligible Assets. This report provides information about:

- 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 Use of Proceeds category
- The amount of unallocated proceeds

2.4.2 Impact reporting

On an annual basis, KBC intends to report on the impact of the Eligible Assets by category from a sustainable and environmental perspective. KBC aims to report on the impact indicators listed in Appendix A below, subject to the availability of information and baseline data and based on methodologies that will be publicly available.

Both allocation report and non-financial impact report will be made publicly available in the Green Bond section of KBC's Investor Relations webpage.

2.5 External review

2.5.1 Consultant review

Prior to issuance, KBC has commissioned Sustainalytics to provide a second party opinion for its Green Bond Framework. Sustainalytics has reviewed KBC Green Bond Framework and issued a second party opinion confirming the alignment of it with the Green Bond Principles.

The second party opinion is available in the Green Bond section of KBC's Investor Relations webpage.

2.5.2 Verification

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.

2.5.3 Certification

KBC aims to seek external certification of its Green Bonds in line with the recognized international standards of the Climate Bonds Initiative.

Appendix A – Impact indicators

Examples of quantitative impact indicators:

For Renewable Energy:

- Installed renewable energy capacity in GW or MW
- Expected or actual annual renewable energy generation in MWh
- Estimated annual GHG emissions avoided (in tCO₂e)

For Energy Efficiency:

- Energy savings in MWh or GWh
- Annual GHG emissions avoided (in tCO₂e)
- Annual GHG emissions reduced (in tCO₂e)
- Number of energy efficiency measures financed by category
- Number of retail vehicles financed
- Number of public transportation projects financed
- Number of people using the new public clean transportation means

For Green Buildings

- Date of construction
- Certification level
- Estimated annual energy savings in MWh or GWh compared to a baseline
- Estimated annual GHG emissions avoided/reduced in tons of CO₂e

For KBC ‘Green Energy Loans’

- Total amount committed / disbursed / outstanding
- Number of loans and average amounts

Examples of additional possible impact indicators:

- Alignment with UN Sustainable Developments Goals, such as: SDG7) Affordable and Clean Energy, SDG13) Climate Action, SDG12) Responsible Consumption and Production, SDG 15) Life on Land
- Annual water savings, volume of wastewater treated or avoided
- Mitigation of negative impact (e.g. reduction in local GHG emissions, health impact, biodiversity and noise level)
- Land area of certified/sustainable forestry or organic farming

For all other use of proceeds categories, specific impact indicators will be developed over time once Green Bond proceeds will be allocated to these categories.