



BELGIAN DEBT AGENCY

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Green OLO
Allocation report
2021

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1

CONTEXT OF THE
GREEN OLO
ISSUANCE

1.1 RATIONALE FOR ISSUING A GREEN OLO

Global environmental challenges require massive investments which will need to be at least partially financed by debt capital markets. The Green Bond market and its recent development has demonstrated its ability to:

- Dedicate an increasing part of global debt capital markets to finance environmental projects,
- Mobilise private investment and increase investment volumes dedicated to the energy and ecological transition,
- Mobilise a new financial ecosystem, from Green Bond issuers providing depth and liquidity to this market to Socially Responsible Investors launching dedicated Green Bond funds. The Green Bond market is an efficient tool to increase the financial sector's awareness of the urgent need for environmental action.

The Kingdom's first Green Bond issue provided an opportunity to:

- demonstrate Belgium's strong commitment to addressing the global environmental challenges,
- make use of this market's untapped growth potential to raise funds to support its climate and environmental policies, and
- take a leading role in developing the Green Bond market globally and in particular in Belgium. The Green OLO could be a turning point for the Belgian Green Bond market and pave the way for potential public and private issuers, by providing large and liquid benchmark, and by stimulating the Belgian investor demand (Belgian retail investors being eligible to invest).

Since the Kingdom of Belgium launched its inaugural Green OLO, many European sovereign issuers have been active in the green bond market with the active involvement of the European Commission with various green projects including the EU Next Generation Plan. Furthermore, a classification system known as EU Taxonomy has been developed to boost EU sustainable investments and implement the EU green deal.

¹ <https://financeflanders.be/finance/debt-situation/current-maturities>

The Kingdom of Belgium committed to treat the Green OLO as a regular point on the curve, which it did after the initial EUR 4.5bn syndication in 2018, by tapping the Green OLO twice in 2019, for an amount of EUR 2.386 bn, 3 times in 2020, for an amount of EUR 2.030 bn and twice again in 2021 for EUR 1.514 bn, reaching a current total outstanding of EUR 10.430 bn.

Other Belgian public issuers have also continued their issuance in the SRI space. Up until the end of 2021, the Flemish Community has issued EUR 4.07 bn of sustainability bonds¹. The Walloon Region has issued EUR 1.7 bn of sustainability bonds and a EUR 1 bn of social bond². In addition, several Belgian corporates have also accessed the SRI market.

1.2 BELGIAN ENVIRONMENTAL POLICIES

Belgian environmental policy is geared towards achieving national, European and international objectives, within the framework of the coalition agreement, the European Green Deal with its Climate Law and its Fit for 55 package, the three Rio Conventions, the Sustainable Development Goals and the Paris Agreement.

Current challenges, such as the energy crisis and the war in Ukraine, have highlighted the importance of scaling up renewable energy and energy efficiency as well as strengthening our independence instead of relying on external suppliers, while simultaneously prioritizing the climate and environmental crises.

The main environmental challenges are and remain:

- Climate Change
- Biodiversity conservation
- Preservation of natural resources

1.2.1. CLIMATE CHANGE

² <https://www.wallonie.be/en/financing/green-social-sustainable-bonds>

In 2015 the Paris Agreement was adopted as a legally binding international treaty on climate change. The long-term objectives of this Agreement are to hold “the increase in the global average temperature to well below 2 °C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 °C above pre-industrial levels”, as well as to foster climate resilient and low emission development and to make finance flows consistent with those two objectives. The importance of the 1.5°C objective was explicitly reaffirmed at COP26 in Glasgow at the end of 2021 in the form of the Glasgow Climate Pact. To achieve this goal, global greenhouse gas emissions must peak by 2025, be halved by 2030 and reduced to net zero by the middle of this century. Today, earth is already 1.1°C warmer than it was 150 years ago.

The contributions of the Parties to the Paris Agreement to the global temperature targets take the form of so-called Nationally Determined Contributions (NDCs), through which nationally set (climate) targets and/or measures are registered with the United Nations. With the current NDCs, the world is on track for a 3.2° warming in 2100³. The scientific community is now warning that exceeding the 1.5° target risks far more severe climate change impacts on people and ecosystems than previously predicted.⁴

As part of the European Green Deal, the EU has committed itself to achieving climate neutrality by 2050, with an intermediate target for 2030 of a net domestic greenhouse gas reduction of at least -55% compared to 1990. Both targets are legally anchored in the European Climate Law. All Member States, including Belgium, will have to contribute to their achievement.

On the 14th of July 2021, the European Commission proposed the Fit for 55 package, revising the EU’s climate and energy legislation in order to reach the EU’s 2030 target, which, at the end of 2020, was raised from a 40% greenhouse gas emission reduction target to a target of at least -55% net greenhouse gas reductions by 2030.

The EU’s climate targets are implemented through specific objectives for the different ‘pillars’ of the EU’s climate policy; as part of Fit for 55 the European Emission Trading System (EU ETS), which mainly covers industrial and power sector emissions at EU-level, will be extended to the maritime sector, and the emission cap will be further tightened to reach -61% by 2030 with respect to 2005. The Commission also envisions a new ETS, the Emission Trading Scheme for buildings and road transport, introducing an EU-wide carbon price to cost-effectively address the lack of emission reductions in these sectors; while the potential social impact on vulnerable households, micro-

enterprises and transport users will be compensated for by a Social Climate Fund, fed by a part of the revenues from the ETS for buildings and road transport. Secondly the Effort Sharing Regulation, assigns strengthened emissions reduction targets to each Member State with regard to the non-ETS-sector (mainly buildings transport, agriculture, waste and non-ETS-industry). Finally, the Commission proposes that the land sector (Land Use, Land Use Change and Forestry, LULUCF) should contribute at least 310 Mt of net greenhouse gas removals by 2030, on top of the reductions in the ETS- and Effort Sharing Regulation-pillars. As regards energy, the target of at least 32% of renewable energy sources in the overall energy mix is increased to at least 40% by 2030, coupled with a higher target for reducing primary (39%) and final (36%) energy consumption by 2030, up from the current target of 32.5% (for both primary and final consumption). The public sector will be required to renovate 3% of its buildings each year. Furthermore, a phase-out date for the sale of cars and vans with internal combustion engines from 2035 was proposed by the Commission, while Member States are required to expand charging capacity in line with zero-emission car sales. Major ports and airports should provide access to clean electricity supply, where increasing levels of sustainable aviation fuels should be blended in jet fuel, while in the maritime sector, targets for improving the greenhouse gas content of energy used by ships will be set. The taxation of energy products will be aligned with EU energy and climate policies through the revised Energy Taxation Directive. Finally, a new Carbon Border Adjustment Mechanism will put a carbon price on imports, to prevent the risk of carbon leakage and support the EU’s increased ambition on climate mitigation, while ensuring WTO compatibility.

In light of these developments, and for Belgium to meet its scaled-up 2030 obligations, significant additional measures will need to be implemented, on top of what has currently been laid out in Belgium’s 2021-2030 National Energy and Climate Plan (NECP, adopted in 2019)⁵. Belgium’s 2050 Long-term Strategy (LTS, adopted in 2020)⁶ will also likely need to be revised following the abovementioned developments. EU legislation requires the regular update of both the NECP and the LTS. The next deadline for submitting an updated draft version of the NECP is June 2023. Achieving climate neutrality in Belgium by 2050, as endorsed by the federal government, is technically possible. Nevertheless, it constitutes a major challenge requiring systemic changes, both at the behavioural and technological level. The figure below shows, for the central scenario analyzed, how GHG emissions would need to evolve in the main

³ IPCC Assessment Report 6 Working Group 3: Summary for Policy Makers (IPCC AR6 WG III SPM), p.21

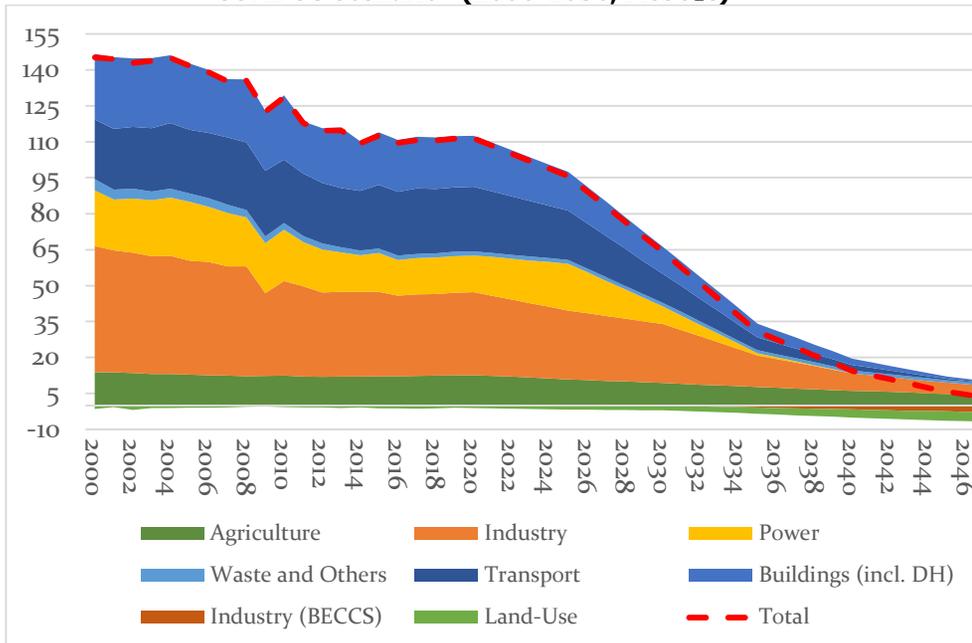
⁴ IPCC Special Report: Global Warming of 1.5°, p.36, 37, 38

⁵ <https://www.nationalenergyclimateplan.be/en>

⁶ <https://unfccc.int/process/the-paris-agreement/long-term-strategies>

sectors in order to reach net-zero emissions by 2050, through a combination of new technologies and new consumption and production patterns.⁷

GHG emissions – historical emissions and evolution according to the CORE-95 scenario (2000-2050, MtCO₂e)



1.2.2. BIODIVERSITY CONSERVATION AND SUSTAINABLE USE

⁷ <https://klimaat.be/doc/climate-neutral-belgium-by-2050-report.pdf>

⁸ Global Assessment Report on Biodiversity and Ecosystem Services | IPBES secretariat

According to the IPBES Global Biodiversity Assessment report⁸, up to one million species currently face the threat of extinction, with independent lines of evidence pointing to an imminent and rapid acceleration in the global rate of species extinction, which is already tens – if not hundreds – of times higher than it has been on average over the last 10 million years. Biodiversity - and the ecosystem services it provides - underpins each of the 17 Sustainable Development Goals. Therefore, its loss is a global and generational threat to humanity. Biodiversity and habitat loss contribute to the emergence of zoonosis like SARS-CoV-2. At the same time, the importance of biodiversity and nature for human health and well-being was also emphasized during the COVID crisis.

The loss of biodiversity is caused by both direct and indirect drivers. The direct drivers with the largest global impact have been changes in land and sea use, natural resource use and exploitation, climate change, pollution and invasion of alien species. Indirect drivers of change are based on societal values and behaviours that include unsustainable production and consumption patterns, human population dynamics and trends, socio-economic patterns and governance at all levels. Addressing these direct and indirect drivers can only be achieved through transformational changes across economic, social, political and technological factors.

Through its national legislation and policies, Belgium actively supports the conservation, restoration and sustainable use of biodiversity through the implementation of global and regional, treaties and EU legislation, in particular the UN Convention on Biological Diversity, the Cartagena Protocol on Biosafety, the Nagoya Protocol on Access and Benefit-Sharing (genetic resources), the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), the EU Biodiversity Strategy 2030 and the upcoming EU legislation on legally binding Restoration Targets, the EU Farm to Fork Strategy, the EU Regulation on invasive alien species (IAS) and Natura 2000 (birds and habitats directives). Belgium is furthermore fully committed to the development and implementation of a strong and ambitious post-2020 global biodiversity framework, to be adopted at the second session of the 15th Conference of Parties (COP15.2) of the UN Convention on Biological Diversity. Belgium also aims at protecting at least 17% of continental areas and 10% of marine areas⁹ and is part of

⁹ https://www.health.belgium.be/sites/default/files/uploads/fields/fpshealth_theme_file/19104339/Strat%C3%A9gie%20nationale%20biodiversit%C3%A9%202013_EN.pdf

the High Ambition Coalition for Nature and People which aims at protecting 30% of the planet – land and sea – by 2030¹⁰.

1.2.3. PRESERVATION OF NATURAL RESOURCES

The unsustainable use of resources has triggered critical scarcities and caused climate change and widespread environmental degradation. These problems are related to a linear economy which is based on a “throwaway” model. A circular economy is aimed to keep products, components and natural resources in the economy as long as possible, increasing the utility value and limiting the production of waste products while creating opportunities to boost the economy, contribute to innovation, new business models, growth and jobs creation. To this end, Belgium has approved an ambitious plan of action with several measures to stimulate circularity in production and consumption patterns through reuse, repair and recycling¹¹.

In 2018, some 2.169 bn tonnes of waste were treated in the EU. More than a half (54.6 %) of the waste was treated in recovery operations: recycling (37.9 % of the total treated waste), backfilling (10.7 %) or energy recovery (6.0 %). The remaining 45.4 % was either landfilled (38.4 %), incinerated without energy recovery (0.7 %) or disposed of otherwise (6.3 %).¹² At the EU level, the objective of the Kingdom of Belgium is to recycle at least 65% of municipal waste and 75% of packaging waste by 2030.

The emissions of key air pollutants have decreased in recent years in Belgium but the air quality is still a cause of concern. The latest available annual estimates by the European Environment Agency¹³ point to about 6500 premature deaths attributable to fine particulate matter concentrations¹⁴, 270 to ozone concentration¹⁵ and 750 to

nitrogen dioxide concentrations¹⁶. Belgium projects to reach emission reduction commitments for all air pollutants for the period 2020-2029 and for 2030 onwards, as submitted under Article 10(2) of the National Emission reduction Commitments Directive (NECD)¹⁷.

¹⁰ <https://www.hacfornatureandpeople.org/home>

¹¹ <https://news.belgium.be/nl/federaal-actieplan-voor-een-circulaire-economie-2021-2024>

¹² https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Waste_statistics#Total_waste_generation

¹³ European Environment Agency, Air Quality in Europe –2021 Rapport. Please see details in this report as regards the underpinning methodology, p.106

¹⁴ Particulate matter (PM) is a mixture of aerosol particles (solid and liquid) covering a wide range of sizes and chemical compositions. PM10 (PM2.5) refers to particles with a diameter

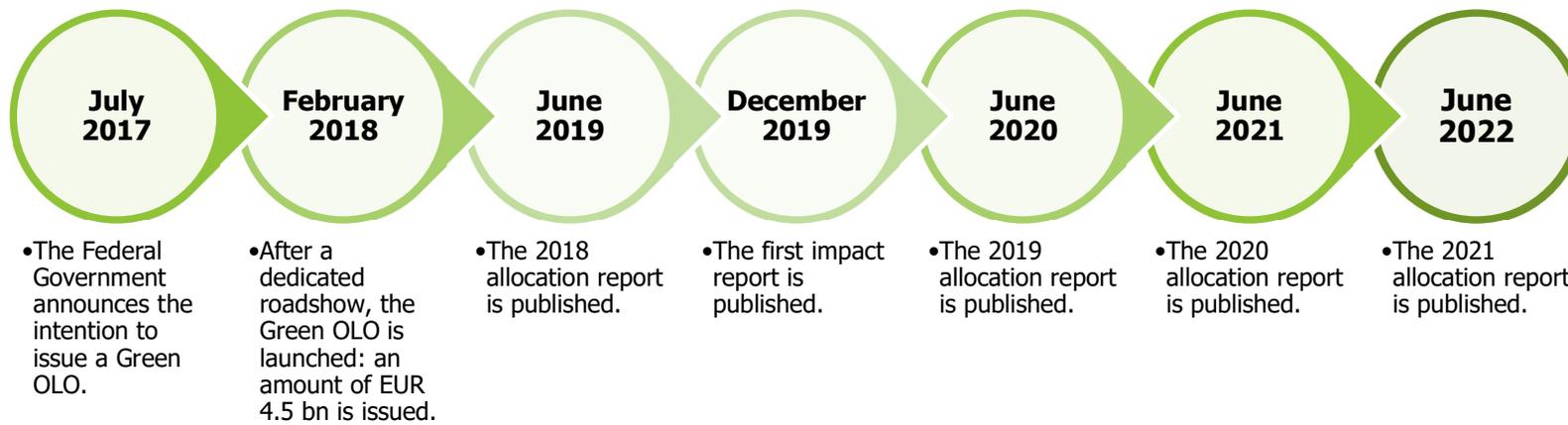
of 10 (2.5) micrometres or less. PM is emitted from many human sources, including combustion.

¹⁵ Low-level ozone is produced by photochemical action on pollution

¹⁶ NOx is emitted during fuel combustion e.g. from industrial facilities and the road transport sector. NOx is a group of gases comprising nitrogen monoxide (NO) and nitrogen dioxide (NO2).

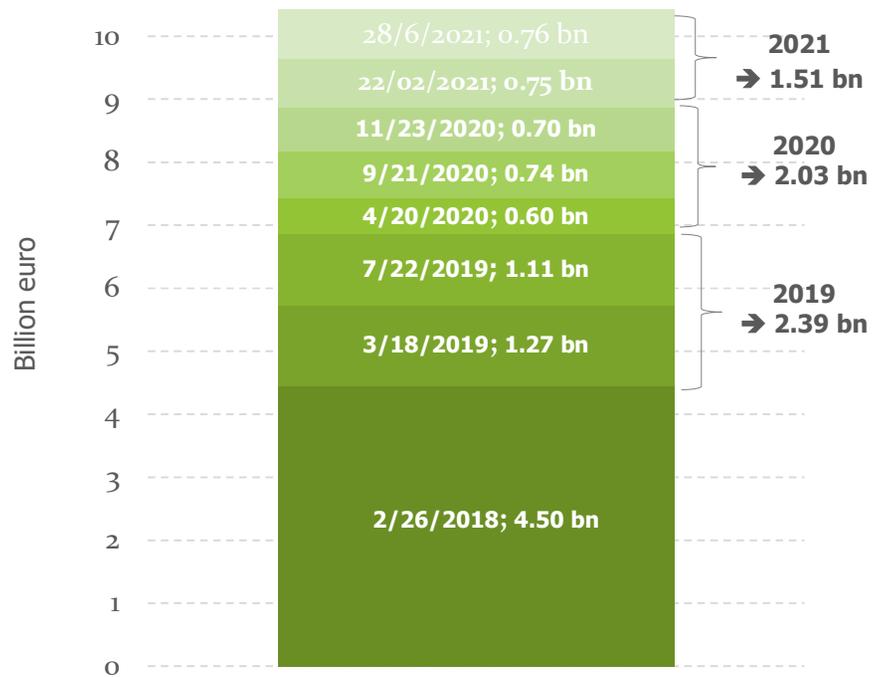
¹⁷ Directive 2016/2284/EU

1.3 THE GREEN OLO: MILESTONES

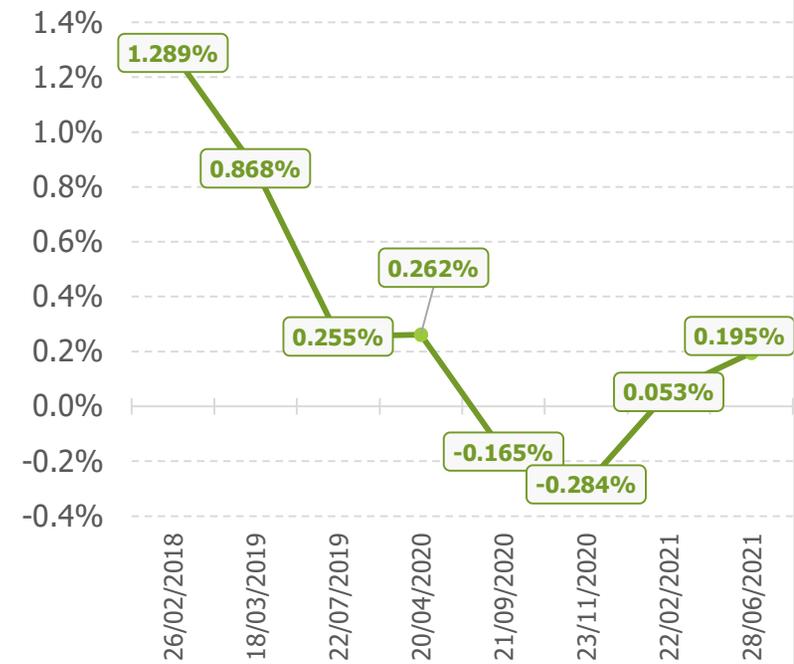


OLO 86: ISSUANCE

Evolution of the OLO 86 outstanding



Evolution of the OLO 86 yield at issuance



1.4 THE GREEN OLO FRAMEWORK

<p>1 Use of Proceeds</p>	<ul style="list-style-type: none"> • Eligible Green Expenditures related to a large number of assets, in line with the State's role, and targeting different beneficiaries: households, companies, local authorities and public agencies. • Five Green sectors have been defined: Clean Transportation; Energy Efficiency; Renewable Energy; Circular Economy; and Living Resources and Land Use. • Investment expenditures, operating expenditures and tax expenditures are eligible.
<p>2 Process for Project Evaluation and Selection</p>	<ul style="list-style-type: none"> • The selection of Eligible Green Expenditures is annually managed by an Inter-Ministerial Working Group. • Selection has been done in order to be representative of Federal State's missions and in line with the Federal budget. • Each FPS (Federal Public Services) is responsible for identifying Eligible Green Expenditures • An overlay in the selection process aimed at excluding expenditures mainly related to selected sectors (fossil fuel, armaments, nuclear, large scale hydroelectric developments). • Green Expenditures that other Belgian agencies may plan to use themselves for issuing their own Green Bonds are excluded.
<p>3 Management of Proceeds</p>	<ul style="list-style-type: none"> • Tracking the allocation of the bond proceeds will be done by the Belgian Debt Agency. • Eligible Green Expenditures from the previous year and the current year are included.
<p>4 Reporting</p>	<ul style="list-style-type: none"> • The Kingdom of Belgium is committed to provide two levels of reporting: <ul style="list-style-type: none"> ○ The management and allocation of bond proceeds. ○ The assessment of environmental impact of Eligible Green Expenditures.
<p>External review</p>	<ul style="list-style-type: none"> • Second Party Opinion on the Green OLO Framework provided ex-ante by Sustainalytics. • The allocation table will be reviewed by an independent audit firm.

1.5 METHODOLOGY

1.5.1. THE SELECTION OF ELIGIBLE GREEN EXPENDITURES

The selection of Eligible Green Expenditures is monitored every year by an Inter-ministerial Working Group, coordinated by the Belgian Debt Agency, the Environment Ministry and the FPS Finance and overseen by the Prime Minister. Each of the government departments involved identifies green expenditures within their scope and reports on them to the working group. The selection is prepared taking the eligibility criteria, as set out in the Green OLO Framework, into account.

The expenditures ultimately withheld are and remain in line with the list of expenditures presented during the investors roadshow in February 2018 and the published allocation reports.

1.5.2. THE TYPE OF ELIGIBLE GREEN EXPENDITURES

In the Green OLO framework, three distinct types of expenditures have been withheld as Eligible Green Expenditures: budget expenditures, fiscal expenditures and investments by public agencies. For each type, a specific methodology has been developed to track the amounts complying with the eligibility criteria set out in the Green OLO Framework. As a rule, where possible, we refer to publicly available information regarding these amounts, and to the source where this information can be found. Where necessary, a more detailed methodological description is included in the section of the individual expenditures further in this document.

- **Federal budget expenditures:** The Federal General Expenses Budget containing all budget expenditures for the coming year is voted annually by Parliament, before the start of the calendar year. For standard (limitative) commitment credits, this forward-looking budget limits the amounts the federal government can spend on each of the budget programs. In exceptional cases, variable credits or allocated funds are used, establishing a direct link between the amount that can be spent on a budget program or on payments to specific third parties, and certain federal revenues.

The Budget Minister monitors the day-to-day execution of the federal budget. He is assisted by the Inspectorate of Finance, which is responsible, on behalf of Ministers, for administrative and budget inspection, research, audits and for providing opinions on administrative, budget and financial policies. The Belgian Court of Audit will, on behalf of Parliament and ex-post, review the public finances at the federal and sub-federal level.

After each calendar year, before the 30th of June, the Budget Minister submits the general account of the federal government for the preceding year for approval to Parliament. This final account stipulates all state revenues and expenditures.

Detailed explanation on the budgeting process in Belgium, the roles of the different intervening parties and of the country's Court of Audit can be found (in Dutch and French) on the general website¹⁸.

The most recent annual budgets can also be found on the aforementioned website.

This allocation report considers as expenditures the amounts actually disbursed by the federal government for each of the selected budget items in a given year. It indicates the budget lines under which the expenditures were budgeted and the amounts of Eligible Green Expenditures that were identified within these programs.

- **Fiscal expenditures:** Several fiscal expenditures have been withheld as Eligible Green Expenditures. Fiscal expenditures are defined as *'reduced fiscal revenues due to tax incentives deriving from a derogation from the general taxation rules, in favor of certain taxpayers or certain activities, and which could be replaced by a direct subsidy.*

Detailed analyses by the Strategic Expertise and Support Service of the FPS Finance were provided in order to estimate the amounts of such fiscal expenditures. Since the taxation cycle often spans several years (typically three for personal income tax, four for corporate tax), final estimates of the impact of fiscal expenditures are only available with a certain delay. Statistics are calculated on the tax return data available on the 30th of June. Therefore, for each of the budgeted fiscal expenditures for a given year, this document uses the most recent estimates based on available historical data. As long as the fiscal expenditures estimates are not final, they will be replaced in the following year by even more recent estimates and ultimately by the final figures once available.

¹⁸ <https://bosa.belgium.be/en/government-budget>

The fiscal expenditures estimates are published annually in the annex to the Federal Budget of Ways and Means "Inventory of exemptions, deductions and reductions that affect state revenue".

- **Investments by government agencies:** The government agencies of which investments were identified as Eligible Green Expenditures (SFPIM and BIO) provide and publish their own annual report¹⁹. The reporting by these agencies was used, based on amounts actually invested during the year, i.e. on cash disbursement basis rather than on commitment basis.

1.5.3. THE ALLOCATION PROCESS

The actual allocation of proceeds of the bond issuance to the selected Eligible Green Expenditures is done in steps:

- First, as provided in the Green OLO Framework, 2020 eligible expenditures not allocated to the 2020 issuance proceeds (amounting to 824.3m EUR in this report), are allocated to the 2020 issuance proceeds, considering 95% of all confirmed amounts and 75% of the estimates.
- Then, the remaining issuance proceeds are attributed to the 2021 expenditures (again considering 95% of all confirmed amounts and 75% of the estimates). In this year's exercise, the allocation has not been made in a fully proportionate way. As an update of the Green OLO framework is being prepared, priority has been given to some expenditures in order to be able to optimize the size of bond issuance in 2022 under the updated framework. This will lead to less than proportionate allocation to some categories in 2021, namely the railway expenditures, the tax exemptions for clean transportation and the contributions to development cooperation.

This sequential process provides sufficient certainty that the Green OLO proceeds are allocated to selected and disbursed Eligible Green Expenditures. Any corrections to estimated data reported the preceding year, will be published in the following allocation report.

¹⁹ <https://www.bio-invest.be/en/news> and <http://www.sfpim.be/en/publications>

1.5.4. FINALISATION OF PREVIOUS ESTIMATES

• Review of the allocation report of 2018

The allocation report of 2020 published last year included final figures of the tax deductions for green investments of 66.6 million compared to estimates of 49.01 million used in the 2018 allocation report. These final expenditures were higher than estimated in 2018. However, the FPS Finance has reviewed the models used to calculate the fiscal expenditures. The previous calculation only looked at the investments and the deductions that resulted from them. The Green investments deduction was based on it. The new calculation is more in line with the calculation of other tax expenditures, where it is examined to what extent the deduction has an impact on income from the corporate income tax. Indeed, since a company can choose to have R&D tax credit or investment deduction, it is now possible to have a split of the tax credit that can be offset against the corporate income tax or not²⁰.

This review results in a correction of the final expenditures for 2017 and 2018.

Eligible Expenditures in	EUR2017 (E)	2017 (Old Final)	2017 (New Final)
Deduction green investments	49,010,000	64,320,000	46,940,000

Eligible Expenditures in	EUR2018 (E)	2018 (Old Final)	2018 (New Final)
Deduction green investments	49,010,000	66,600,000	42,080,000

As described in the allocation process section, the allocated amount for 2017/2018 was 75% on the estimated expenditures. Because of this reduction, the allocated expenditures for the years 2017 and 2018 in the allocation report of 2018 are still lower than the reviewed final expenditures.

²⁰ <https://www.dekamer.be/FLWB/PDF/55/2291/55K2291002.pdf>

Deduction green investments		
Eligible Expenditures in EUR	Reviewed final amount	Allocated amount
2017	46,940,000	36,757,500
2018 (including part in 2019)	42,080,000	36,757,500
2017+2018	89,020,000	73,515,000

- Review of the allocation report of 2019**

The 2019 allocation report was also based on a number of estimates from the FPS Finance. In the meantime, figures for 2019 expenditures have been finalized and for the increased tax deductions for green investments category, the same reviewed model as described on the previous page has now been used.

INCREASED TAX DEDUCTIONS FOR GREEN INVESTMENTS

Eligible Expenditures in EUR	2019 (E)	2019 (Final)
Deduction green investments	46,170,000	54,810,000

The other finalized estimates used in the 2019 allocation report are :

TAX EXEMPTIONS AND DEDUCTIONS TO PROMOTE CLEAN TRANSPORTATION

Eligible Expenditures in EUR	2019 (E)	2019 (Final)
Deduction for promotion of clean transportation	303,460,000	366,970,000

REDUCED PACKAGE CHARGE FOR USING INDIVIDUAL REUSABLE DRINK PACKAGES

Eligible Expenditures in EUR	2019 (E)	2019 (Final)
Reduced Package Charge	60,660,000	62,740,000

- Review of the allocation report of 2020**

The 2020 allocation report contained estimated expenditures of 62.18 million for the reduced package charge. The 2020 final expenditure is 55.49 million and is lower than

the estimate. However, when allocating the 2020 bond proceeds to these expenditures, the estimated figure was reduced by 50% to take into account the COVID situation on top of the 75% rule. This prudent approach led to an allocated amount of only 23.3 million which is a lot lower than the final expenditure of 2020.

Eligible Expenditures in EUR	2020 (Final)	2020/2021 (Allocated)
Reduced Package Charge	55,490,000	23,317,500

In conclusion, since the realizations are higher than the estimates of the 2019 expenditures included in the 2019 allocation table, the figures in the 2020 allocation report remain valid. In cases where the final expenditures are lower than the estimates such as in 2018, the allocated amounts are still lower than final expenditures. Even though the estimations seem very prudent, the BDA will continue to follow the same approach and use the same allocation process to ensure the eligible expenditures always cover the amounts of Green OLO issuance.



2
DETERMINATION
OF ELIGIBLE
GREEN
EXPENDITURES

2.1 FEDERAL BUDGET EXPENDITURES

2.1.1. SUBSIDIES TO SNCB (BELGIAN RAILWAYS)

As part of its annual budget the federal government contributes to SNCB's mission of operating the Belgian railway. The subsidies paid under items 33 51 10 31.22.02 and 33 51 10 31.22.18 of the federal budget cover a wide array of operating costs. The Green OLO Framework considers only a subset of two major categories as Eligible Green Expenditures:

- the infrastructure fee annually paid by SNCB to Infrabel for the use of the rail network when offering its transport services;
- the costs for maintenance, repair and remediation of the company's own rolling stock and sanitation works.

The selection of the amounts of Eligible Green Expenditures is based on granular SNCB accounting data.

Eligible Expenditures in EUR	2021
Infrastructure Fee	364,946,952
Rolling Stock & Sanitation	116,334,401

2.1.2. SUBSIDIES TO SNCB (INVESTMENT PROGRAM)

In addition to this selection of operating expenses, major SNCB investment programs are also financed with federal government subsidies. These can be found under the items 33 51 11 51.11.01, 33 51 11 51.11.02 and 33 51 11 51.11.04 of the federal budget.

These investments contribute to the government's aim of promoting the modal shift to clean transportation in Belgium. Strengthening rail services leads to a reduction in the use of cars and to a change in the behavior of commuters and leisure travelers.

Before the COVID pandemic, the SNCB annual results showed a continued increase in domestic travelers over the past three years. The growth rate in 2017 and 2018 was 3.6% and 3.7% respectively and stood at 3.9% end of 2019. In 2020 and 2021, travel restrictions due to the pandemic had a significant impact. As a consequence, the SNCB saw a significant decrease in domestic passenger volumes during these years. This did, however, not alter the company's commitment to its ambitious investment program.

A subset of the above mentioned budget programs was withheld as Eligible Green Expenditures to the extent that the amounts were actually invested by SNCB during the respective budget years. More specifically, investments in the following three categories were selected.

- rolling stock;
- the reception of customers (in particular station buildings, parking and safety);
- maintenance of these facilities

Eligible Expenditures in EUR	2021
Rolling stock	423,423,981
Reception of clients	122,609,633
Maintenance	46,639,995

Examples of the aforementioned investments are :

- **Rolling stock** : the continuing purchase program of M7 double deck coaches to increase the capacity on the busiest lines, modernisation of Electric Multiple Units, overhaul of coaches and Multiple Units, deployment of ETCS ...
- **Workshops** : renewal of tracks (Schaerbeek, Mechelen, Forest, Châtelet) and roofs (Salzennes), new service buildings in Gent and Charleroi, redesign of rail yard and new car park in Kinkempois, replacement of machinery and various renovations, maintenance works...
- **Reception of clients** : continuation of major projects in stations (Mechelen, Mons, Kortrijk) and for the regional-express network around Brussels, various station redevelopment projects (Leuven, Vilvoorde, Bruxelles-Midi, Sint-Truiden, Hasselt, Charleroi-Sud, Froyennes, La-Louvière-Centre), creation of parking spots (bicycles + 3,956 / cars + 212), 10 additional stations accessible for people with reduced mobility...

The selection of the amounts of Eligible Green Expenditures is based upon granular SNCB accounting data.

2.1.3. SUBSIDIES TO INFRABEL (INVESTMENT PROGRAM)

Infrabel is the network operator for the Belgian railways. The federal government contributes annually to the investment program of Infrabel under federal budget items 33 51 11 61.41.51, 33 51 11 61.41.52 and 33 51 11 61.41.53.

These federal contributions to investments in the railway infrastructure and in the ETCS safety system (European Train Control System) were withheld in their entirety.

Eligible Expenditures in EUR	2021
Railway Infrastructure	510,872,702
ETCS Investments	165,022,295
Capacity Increase	214,098,181
Production Means	103,809,692

The Eligible Green Expenditures cover:

- investments addressing rail traffic safety such as the roll-out of ETCS on the whole infrastructure and the abolition of certain level crossings;
- investments in maintenance of the railway network (i.e. tracks, overhead lines and signage);
- investments in capacity expansion and;
- investments in production means

Infrabel is gradually raising its investments in capacity increase over the coming years.

The above rail-transportation related expenditures fit within the government's aim to enhance the attractiveness of rail and induce a modal shift towards clean transportation. This is fully aligned with the Green OLO Framework.

Examples of some investments are :

- Renewal and safety of the railway axis Brussels-Luxemburg
- Improved safety and robustness of the Brussels North-South link
- Addition of a third and fourth track between Ghent and Bruges
- Investments in the ports for an increased freight traffic by rail

2.1.4. FEDERAL SUPPORT FOR OFFSHORE WINDFARMS

The cost of developing offshore wind farms off the North Sea coast is supported by a surcharge paid by the power users. However, in order not to let these surcharges become uneconomically high, the federal government intervenes through a system whereby this surcharge is made degressive and capped.

In this way the federal government supports the development of the renewable energy supply.

This intervention is settled through payments to the CREG (the Commission for Electricity and Gas Regulation) under the form of so-called allocated funds in the federal budget, and can be found under budget articles 66.82.B and 66.83.B. These articles include several other payments due to the CREG, of which the following amount is the sum of the payments related to the offshore support mechanism.

The amount of federal support for offshore windfarms is increasing on a yearly basis. However, this legal support mechanism has been changed at the end of 2021 and this expenditure will no longer be taken into account in the future.

Eligible Expenditures in EUR	2021
Offshore windfarms	242,670,000

2.1.5. CONTRIBUTIONS TO DEVELOPMENT COOPERATION

The Belgian Development Cooperation (DC) bases its vision on current global environmental issues on the Development Cooperation Act. This Act stipulates that protection of environment and natural resources, the fight against climate change, desertification and global deforestation should be integrated into all its activities.

Its environmental strategy, renewed in 2014, emphasizes that sustainable development promoting economic growth and human welfare must provide new development paths in order to offer an adequate response to the consequences of climate change, increasing environmental degradation and exhaustion of natural resources.

The Belgian government supports various multilateral climate and environment initiatives, such as the Global Environment Facility, the Least Developed Countries Fund (LDCF), the Green Climate Fund (GCF) and the UN Environment Program (UNEP). DC also finances the Capacities for Biodiversity and Sustainable Development (CEBioS) program from the Royal Belgian Institute of Natural Sciences.

Support to DC projects through NGOs were not included in the figures, as the detail of this funding will only be available after the publication of this allocation report.

Federal contributions to development cooperation can be found under the following budget items: 14 54 61 35.40.01, 14 54 42 35.40.06 and 14 54 22 41.30.37. Only disbursed amounts were withheld as Eligible Green Expenditures. The following amounts were identified as Eligible Green Expenditures.

²¹ Art. 38, §1, section 1, 9° a) of the direct tax code (CIR/WIB92),

²² Art. 38, §1, section 1, 14° a) of the direct tax code (CIR/WIB92)

Eligible Expenditures in EUR	2021
Contributions to DC	78,812,389

2.2 FISCAL EXPENDITURES

2.2.1. TAX EXEMPTIONS AND DEDUCTIONS TO PROMOTE CLEAN TRANSPORTATION

The Belgian personal income tax code provides for a series of exemptions and tax deductions that promote the use of cleaner means of transportation. These fiscal expenditures include the following three elements:

- the total exemption (for taxpayers who declare their professional costs on a lump sum basis) of a reimbursement paid by the employer for the costs of commuting, to the extent that this transfer is made by public communal transport²¹;
- the total exemption (up to a maximum amount per kilometer) of a bicycle allowance paid by the employer for an employee's commuting by bicycle²²;
- the tax deduction for the purchase of a purely electrically powered vehicle²³.

The amounts corresponding to such exemptions and tax deductions are calculated on basis of personal income tax returns by the Strategic Expertise and Support Service of the FPS Finance. They are published in the annex to the Federal Budget of Resources "Inventory of exemptions, deductions and reductions that affect state revenue"²⁴. As explained under 1.5.2., amounts for 2021 are currently expert estimates, based on final data for previous years and preliminary tax declaration data. The allocation takes into account that these amounts are still estimates as described under

²³ Art. 145/28 of the direct tax code (CIR/WIB92)

²⁴ https://finance.belgium.be/en/figures_and_analysis/figures

1.5.3. The 2019 figures detailed in the 2019 allocation report have in the meantime been finalized, as described under 1.5.4.

The COVID-crisis will most probably also have an impact on these expenditures, mainly coming from the mandatory teleworking implemented by the federal government as a measure against the spread of the virus. The significant decrease in passenger volumes reported by the NMBS gives us a first insight in the effect. However, the impact it has had on this fiscal expenditure will only be known in detail later this year. In order to build in sufficient prudence, and just like last year, we have halved the estimations of the FPS Finance, as described in the right column of the table below, before applying the regular allocation process as described under 1.5.3.

Eligible Expenditures in EUR	2021 (FPS Est)	2021 (Exp)
Commute by public communal transport	298,570,000	149,285,000
Bicycle allowance	71,930,000	35,965,000
Electrically powered vehicles	1,163,356	581,678

2.2.2. INCREASED TAX DEDUCTIONS FOR GREEN INVESTMENTS

The Belgian income tax code provides for the possibility of an increased investment deduction that corresponds to a certain percentage of the acquisition value of those investments²⁵. This amount may be deducted at once from the amount of tax due. The impact on tax revenues of two categories of this investment deduction is considered as Eligible Green Expenditure.

- the investment deduction for energy-saving investments in specific investments in fixed assets that serve for more rational energy consumption, for improving industrial processes for energy reasons and, for the recovery of energy in industry;

- the investment allowance for investments encouraging the reuse of packaging.

To be eligible for these investment deductions, taxpayers must present a certificate from the Region where the investment was made.

The impact on tax revenues is calculated by the Strategic Expertise and Support Service of the FPS Finance and published in the annex to the Federal Budget of Resources, based on personal income tax returns²⁶. As explained under 1.5.2., amounts for 2021 are currently expert estimates, based on final data for previous years and preliminary tax declaration data. The allocation takes into account that these amounts are still estimates as described under 1.5.3. The 2019 figures detailed in the 2019 allocation report have in the meantime been finalized, as described under 1.5.4.

We expect the COVID-crisis to also have had an effect on investments by companies, therefore the standard 25% haircut applied to estimates in the regular allocation process should therefore be sufficient to cope with the uncertainty about the amount of this expenditure.

Eligible Expenditures in EUR	2021
Deduction green investments	61,510,000

2.2.3. REDUCED PACKAGE CHARGE FOR USING INDIVIDUAL REUSABLE DRINK PACKAGES

The packaging charge is a tax equivalent to excise duty that is levied on individual packages containing drinks (except for milk and aromatized milk-based drinks)²⁷.

Reusable packaging is subject to a reduced packaging charge, provided that the natural or legal person distributing drinks in such packaging applied for and received the necessary approval.

²⁵ Deductions for investments (in general) are established in the articles 68-77, 201, 207, 240, 528 and 530 of the direct tax code (CIR/WIB92)

²⁶ https://finance.belgium.be/en/figures_and_analysis/figures

²⁷ Established in Art. 371 of the Ordinary Law of 16th July 1993 aimed at completing the state structure, as modified last by law of 18th December 2015

For a package to be considered reusable, it must be refillable at least seven times, collected via a deposit system, and effectively reused.

The impact of reduced tax revenues is recognized as Eligible Green Expenditure, as this measure prevents pollution and contributes to the circular economy.

The impact on tax revenues is published every year in the "Inventory of exemptions, deductions and reductions that affect state revenue"²⁸, an annex to the Federal Budget of Resources. As explained under 1.5.2., amounts for 2021 are currently expert estimates, based on final data for previous years and preliminary tax declaration data. The allocation takes into account that these amounts are still estimates as described under 1.5.3.

The shutdown of the Belgian hospitality sector due to the COVID 19 pandemic could have had an impact on the size of the expenditure. It is very uncertain what the effect of the shutdown will be. In order to be prudent, we have halved the expenditure amount to 27.9m from 55.8m estimated by the FPS Finance, before applying the regular allocation process as described under 1.5.3.

Eligible Expenditures in EUR	2021 (FPS Est)	2021 (Exp)
Reduced Package Charge	55,822,000	27,911,000

2.3 INVESTMENTS BY GOVERNMENT AGENCIES

2.3.1. GREEN INVESTMENTS BY THE SFPIM

The Federal Holding and Investment Company (SFPIM) centrally manages the federal government's shareholdings, cooperates with the government on specific projects and pursues its own investment policy in the interests of the Belgian economy. When evaluating potential investments, compliance with the environmental aspects (such as the engagement in the protection of the environment and the application of the

principle of precaution when facing the environmental problems or also rational management of energy) is always taken into consideration.

The SFPIM (and its 100% subsidiary SFPIM Real Estate) participates in several priority sectors, one of which is sustainability. Participations, which directly benefit green projects or investments have been selected and are included as Eligible Green Expenditures in the year of the cash disbursement.

Selected investments are directed towards energy efficiency in real estate construction, restoring polluted sites, clean transportation, water leak detection services, agri-foods funds and impact funds.

Eligible Expenditures in EUR	2021
Investments by SFPIM	21,448,038

2.3.2. GREEN INVESTMENTS BY BIO

BIO is a private company whose capital is held by the Belgian State (FPS Development Cooperation). The mission of the Belgian Investment Company for Developing countries (BIO) is to support a strong private sector in developing and/or emerging countries, to enable them to gain access to growth and sustainable development within the framework of the Sustainable Development Goals.

To this end BIO invests directly in private sector projects and as such makes a structural contribution to the socio-economic growth of those host countries. Its mandate requires strict criteria in terms of geographical targets, financing tools and, above all, impact on development. One of the major challenges for Development Finance Institutions (DFIs) is to help financed companies to become aware that good governance and environmental and social performance are essential components for their success and sustainability and that they must be permanently integrated into their strategy. BIO takes the environmental and social implications into account throughout the lifecycle of the project and incorporates the good practices principles at all levels, from the commercial strategy model through to daily decision making.

²⁸ https://finance.belgium.be/en/figures_and_analysis/figures

The core of BIO's mission to invest in private sector projects is to contribute in a structural and positive way to the socio-economic growth of the host countries and their population, aligned with the UN's Social Development Goals.

In line with the Green OLO Framework, disbursements under the form of loans to projects in renewable energy, solar and hydro projects (< 25 MW) or under the form of participations in renewable energy funds were considered as Eligible Green Expenditures.

Eligible Expenditures in EUR	2021
Investments by BIO	7,037,457



3
ALLOCATION
TABLE

Green OLO: allocation reporting 2020-2021							Expenditure amounts (€ m)		Allocated amounts (€ mn)	
	Expenditures	FPS / Entity	Global challenge	Green Sector	Type of Expenditures	2021	F(inal)/ E(stimate)	2020		
								Previous	2021	
Federal Budget Expenditures	2.1.1	SUBSIDIES TO THE SNCB (BELGIAN RAILWAY EXPLOITATION)	FPS Mobility and Transport	Climate change	Clean Transportation	Operating expenditure	481.3	F	239.5	84.6
	2.1.2	SUBSIDIES TO THE SNCB (INVESTMENT PROGRAMME)	FPS Mobility and Transport	Climate change	Clean Transportation	Investment expenditure	592.7	F	125.0	104.2
	2.1.3	SUBSIDIES TO INFRABEL (INVESTMENT PROGRAMME)	FPS Mobility and Transport	Climate change	Clean Transportation	Investment expenditure	993.8	F	309.9	174.8
	2.1.4	FEDERAL SUPPORT FOR OFFSHORE WINDFARMS	FPS Economy, SMEs, Self-employed and Energy FPS Finance	Climate change	Renewable Energy	Investment expenditure	242.7	F	55.6	225.0
	2.1.5	CONTRIBUTIONS TO DEVELOPMENT COOPERATION	FPS Foreign Affairs, Foreign Trade and Development Cooperation	Biodiversity Climate Change	Living Resources and Land Use	Investment expenditure	78.8	F	15.0	13.9
Fiscal Expenditures	2.2.1	TAX EXEMPTIONS AND DEDUCTIONS TO PROMOTE CLEAN TRANSPORTATION	FPS Finance	Climate change	Clean Transportation	Tax expenditure	185.8	E	46.0	25.8
	2.2.2	INCREASED TAX DEDUCTIONS FOR GREEN INVESTMENTS	FPS Finance	Climate change	Energy Efficiency	Tax expenditure	61.5	E	6.6	35.0
	2.2.3	REDUCED PACKAGE CHARGE FOR USING INDIVIDUAL REUSABLE DRINK PACKAGES	FPS Finance	Natural Ressources	Circular Economy	Tax expenditure	27.9	E	7.7	15.0
Government Agencies	2.3.1	GREEN INVESTMENTS BY THE SFPI-FPIM	SFPI-FPIM	Natural Ressources Climate Change	Living Resources and Land Use Energy Efficiency Circular Economy	Investment expenditure	21.4	F	6.2	18.0
	2.3.2	GREEN INVESTMENTS BY BIO INVEST	Bio-Invest	Climate change	Energy Efficiency	Investment expenditure	7.0	F	1.2	5.0
TOTALS							2,693.0		812.7	701.3

The expenditure amounts and the allocation to each of the expenditures reflect the determination of Eligible Green Expenditures as detailed under 2. and the allocation methodology explained under 1.5.3.

Green OLO Allocated Amounts (mn €) per:				Global Challenge			Green Sector					
Item	Expenditures	FPS / Entity	Type of Expenditures	Climate Change	Natural Resources	Biodiversity	Clean Transportation	Living Resources and Land Use	Renewable Energy	Circular Economy	Energy Efficiency	
Federal Budget Expenditures	2.1.1	SUBSIDIES TO THE SNCB (BELGIAN RAILWAY EXPLOITATION)	FPS Mobility and Transport	Operating expenditure	324.1			324.1				
	2.1.2	SUBSIDIES TO THE SNCB (INVESTMENT PROGRAMME)	FPS Mobility and Transport	Investment expenditure	229.2			229.2				
	2.1.3	SUBSIDIES TO INFRABEL (INVESTMENT PROGRAMME)	FPS Mobility and Transport	Investment expenditure	484.7			484.7				
	2.1.4	FEDERAL SUPPORT FOR OFFSHORE WINDFARMS	FPS Economy, SMEs, Self-employed and Energy FPS Finance	Investment expenditure	280.6				280.6			
	2.1.5	CONTRIBUTIONS TO DEVELOPMENT COOPERATION	FPS Foreign Affairs, Foreign Trade and Development Cooperation	Investment expenditure	28.1		0.8		28.9			
Fiscal Expenditures	2.2.1	TAX EXEMPTIONS AND DEDUCTIONS TO PROMOTE CLEAN TRANSPORTATION	FPS Finance	Tax expenditure	71.8			71.8				
	2.2.2	INCREASED TAX DEDUCTIONS FOR GREEN INVESTMENTS	FPS Finance	Tax expenditure	41.6						41.6	
	2.2.3	REDUCED PACKAGE CHARGE FOR USING INDIVIDUAL REUSABLE DRINK PACKAGES	FPS Finance	Tax expenditure		22.7				22.7		
Government Agencies	2.3.1	GREEN INVESTMENTS BY THE SFPI-FPIM	SFPI-FPIM	Investment expenditure	11.9	12.3		2.6	11.1	5.8	4.8	
	2.3.2	GREEN INVESTMENTS BY BIO INVEST	Bio-Invest	Investment expenditure	6.2				0.2	6.0		
TOTALS					1,478.2	35.0	0.8	1,112.4	40.2	292.3	27.5	41.6



4
ATTESTATION BY
EXTERNAL AUDIT
FIRM



4.1 ATTESTATION BY KPMG



Limited Assurance report of the Independent Auditor

To the Strategic Committee of the Belgian Debt Agency on the Green OLO Allocation Report 2021

Introduction

We were engaged by the Strategic Committee of the Belgian Debt Agency based in Brussels, Belgium (hereafter 'BDA' or 'the Agency') to provide a limited assurance conclusion on the following information in the Green OLO Allocation Report 2021 (together 'the Selected Information'):

- 2020 allocated Green OLO proceeds amounting to 812,7 million EUR (page 22)
- 2021 allocated Green OLO proceeds amounting to 701,3 million EUR (page 22)

Conclusion

Based on our procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the Selected Information is not prepared, in

all material respects, in accordance with the applied criteria of proceeds allocation to Green Eligible Expenditures disclosed in section IV of the Green OLO Framework published in February 2018 at www.debtagency.be/en/green-olo (hereafter 'the Criteria').

Basis for our conclusion

We have carried out our limited assurance engagement on the Selected Information in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "*Assurance Engagements other than Audits or Reviews of Historical Financial Information*", issued by the International Auditing and Assurance Standards Board.

Our responsibilities under this standard are further described in the section 'Our responsibilities' of our report.

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Management's Responsibilities for the Selected Information

The management of the BDA is responsible for the preparation and presentation of the Green OLO Allocation Report 2021 and the Selected Information contained herein in accordance with the Criteria.

This responsibility includes designing, implementing and maintaining internal control relevant to the preparation of the Green OLO Allocation Report 2021 and the Selected

Information contained herein that is free from material misstatement, whether due to fraud or error.

It also includes developing the Criteria, selecting and applying policies, making judgments and estimates that are reasonable in the circumstances and maintaining adequate records in relation to the Green OLO Allocation Report 2021 and the Selected Information contained herein.

Our responsibilities

Our responsibility is to carry out a limited assurance engagement and to express a conclusion based on the work performed in relation to the Selected Information. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board. That Standard requires that we plan and perform the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement.

Procedures performed in an assurance engagement to obtain a limited level of assurance are aimed to determine the plausibility of information and are less extensive than a reasonable assurance engagement. The level of assurance obtained in limited assurance engagements is therefore substantially less than the level of assurance obtained in a reasonable assurance engagement.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the Selected Information. The materiality affects the nature, timing and extent of our review procedures and the evaluation of the effect of identified misstatements on our conclusion.

We have complied with the ethical requirements of the IESBA Code of Ethics issued by the International Ethical Standards Board for Accountants as well as with the Belgian independence rules and other relevant ethical requirements applicable in Belgium.

Our firm applies International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised), ethical requirements and independence requirements.

Our limited assurance conclusion relates solely to the Selected Information and not to the BDA Green OLO Allocation Report 2021 taken as a whole. Also, it is not our responsibility to provide any form of assurance on:

- The suitability of the Criteria in relation to the 2018 Green Bond Principles of the International Capital Markets Association which was assessed by the 'Second Opinion' published in February 2018 at www.debtagency.be/en/green-olo;
- The environmental impact of the allocated proceeds following the Criteria which will be assessed by the Belgian Minister of Environment on the basis of the Green OLO Framework published in February 2018 at www.debtagency.be/en/green-olo;
- The accuracy of the allocation of the Green OLO proceeds by type of expenditure, entity, sector or climate related challenge or goal;
- The management of the proceeds from the Green OLO prior to their allocation or the use of these proceeds after their allocation.

Procedures performed

Our limited assurance engagement on the Selected Information consists of making inquiries, primarily of persons responsible for the preparation of the Selected

Information, and applying analytical and other evidence gathering procedures, as appropriate. These procedures included, among others:

- Identifying areas of the Selected Information where material misstatements are likely to arise, designing and performing limited assurance procedures responsive to those areas, and obtaining assurance evidence that is sufficient and appropriate to provide a basis for our conclusion;
- Developing an understanding of internal control relevant to the limited assurance engagement in order to design limited assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing a conclusion on the effectiveness of the Agency's internal control;
- Evaluating the appropriateness of the reporting Criteria used and their consistent application, including the reasonableness of estimates made by management and related disclosures to the Selected information;
- Interviewing relevant persons responsible for providing the Selected Information, for carrying out internal control procedures on and consolidating the Selected Information;
- Reviewing relevant internal and external documentation, on a limited test basis, in order to determine the reliability of the Selected Information;
- Analytical review procedures to confirm our understanding of trends in the Selected Information.

Antwerp, 21 June 2022

KPMG Bedrijfsrevisoren – Réviseurs d'Entreprises

Steven Mulkens

Executive Director



5
CONTACT



5

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