

2021

# Sustainability Report KBC Group



## A summary of the 2021 KBC Group Sustainability Report

More information: [www.kbc.com](http://www.kbc.com)

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# Sustainability as an integral part of our corporate strategy

*Creating long-term sustainable value in five high-impact areas*

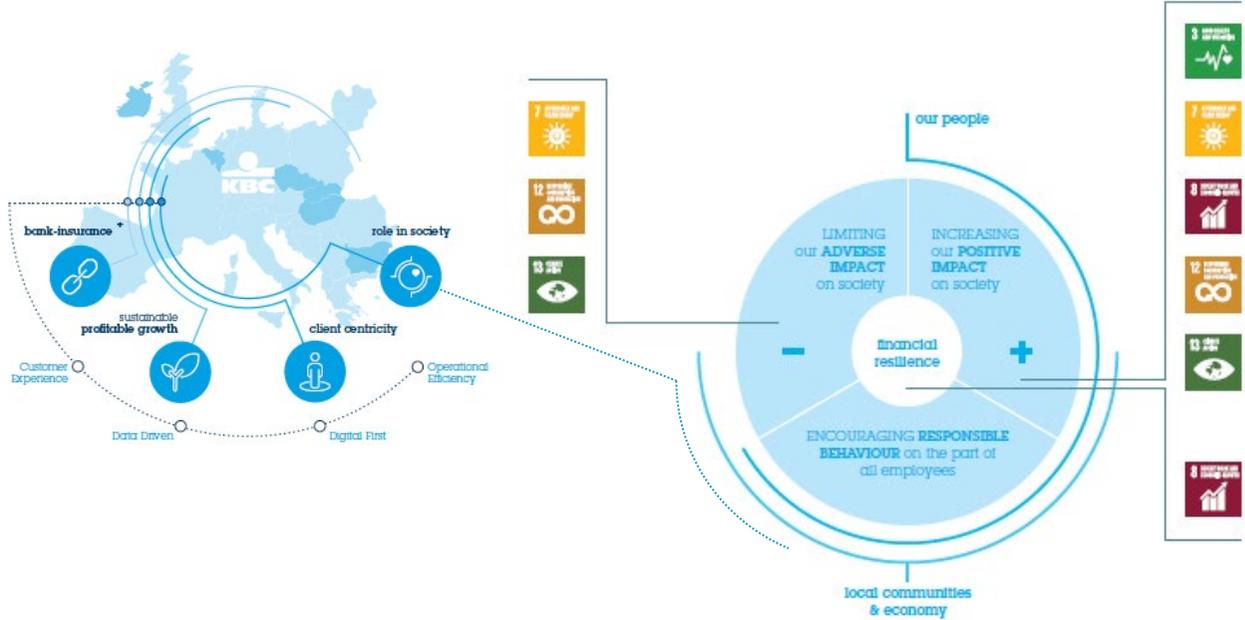


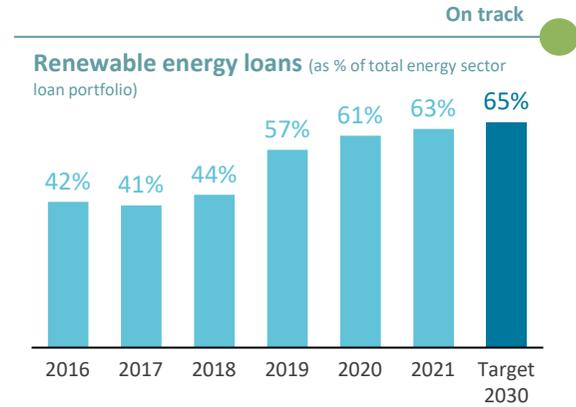
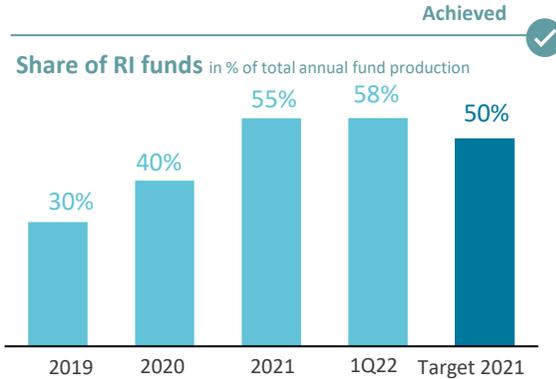
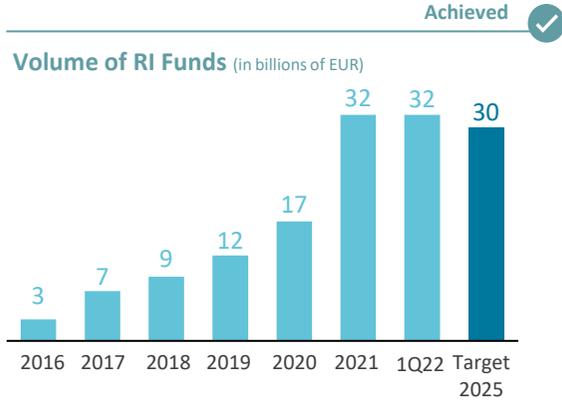
Figure 2.2: The cornerstones of our sustainability strategy

-  **Good health and well-being**  
Developing banking and insurance products that focus on health, healthcare and improving quality of life
-  **Affordable and clean energy**  
Supporting the transition to renewable energy and energy efficient solutions and gradual exit of non-sustainable energy solutions
-  **Decent work and economic growth**  
Supporting (female) entrepreneurship and job creation and facilitating sustainable local development in the South and contributing to financial inclusion through microfinance and microinsurance
-  **Responsible consumption and production**  
Developing business solutions that meet a range of social and environmental challenges and promoting RI funds among our clients
-  **Climate action**  
Limiting our own operational environmental impact and our indirect impact by supporting our clients in their sustainability transition, addressing climate-related risks and focusing on climate-related opportunities

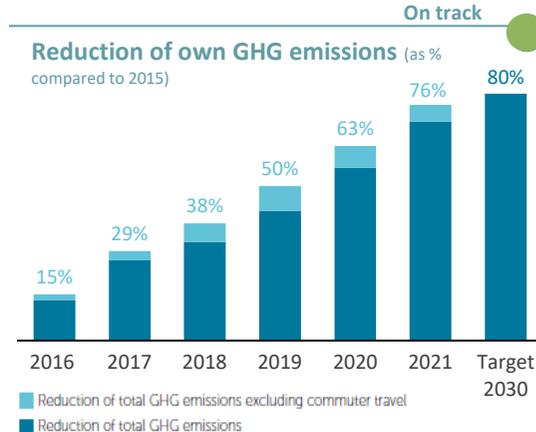
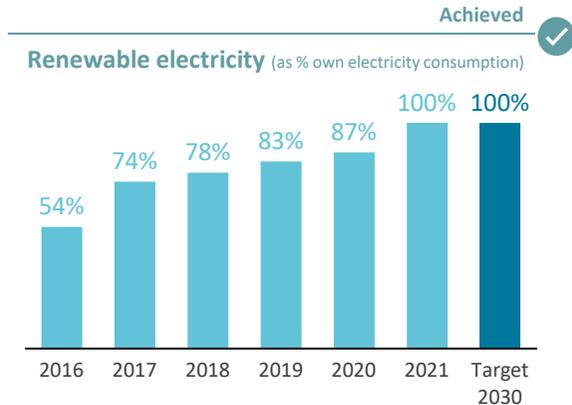




# Translated in clear sustainability-related corporate targets



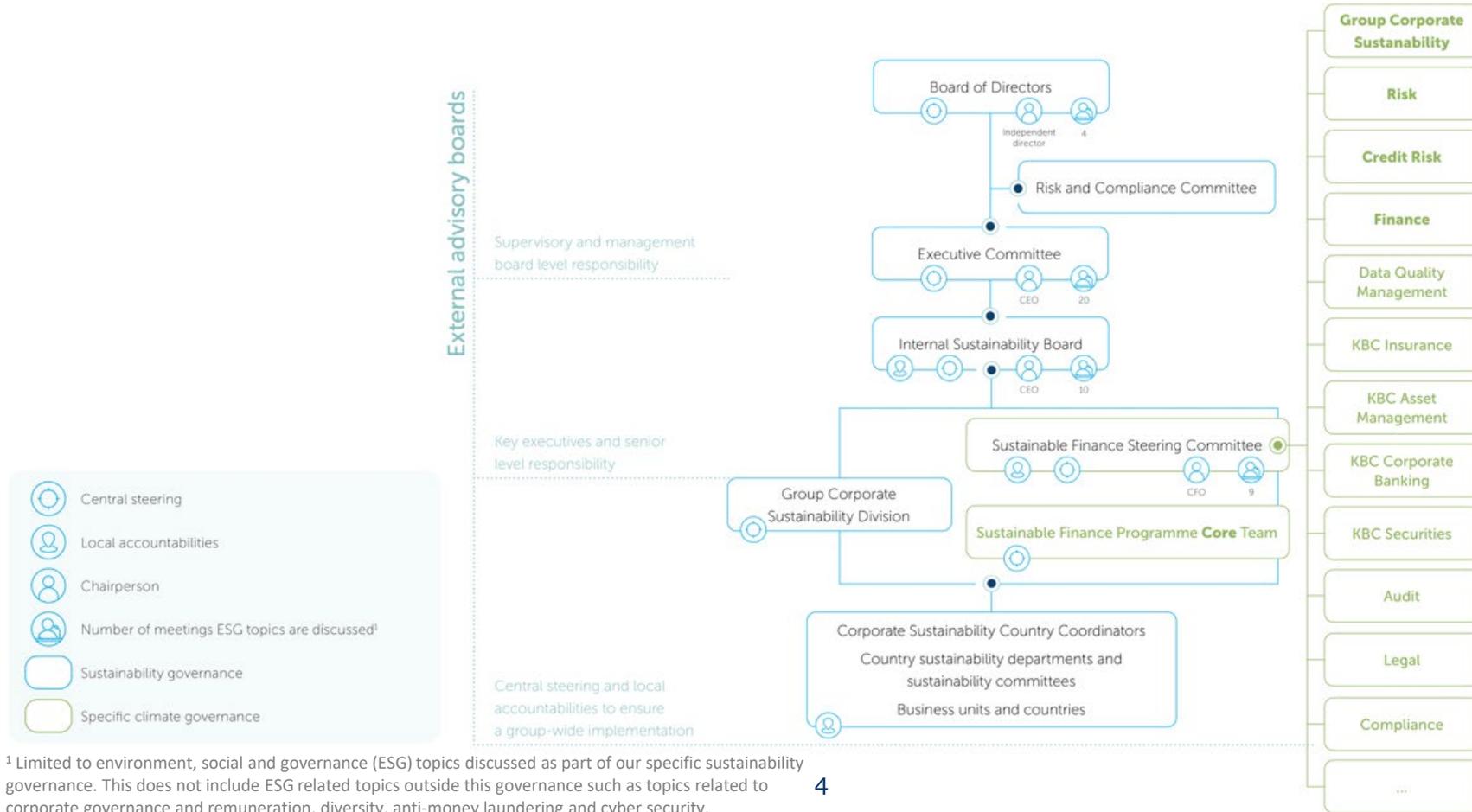
KBC Asset Management current RI framework is a KBC in-house but well proven and externally challenged framework. KBC Asset Management is further aligning this framework to new EU regulations such as SFDR and MiFID and currently works under the assumption that all RI funds are either Article 8 or Article 9 funds under the SFDR.



- Achieved** ✓
- **KBC achieved net climate neutrality as of the end of 2021 by offsetting our residual direct emissions**
  - Three selected climate projects all complying with the highest standards and with clear link to the SDGs and our sustainability strategy

# Supported by a solid sustainability and climate-related governance

*Top level responsibility for sustainability ensuring the integration into every layer of the organisation*

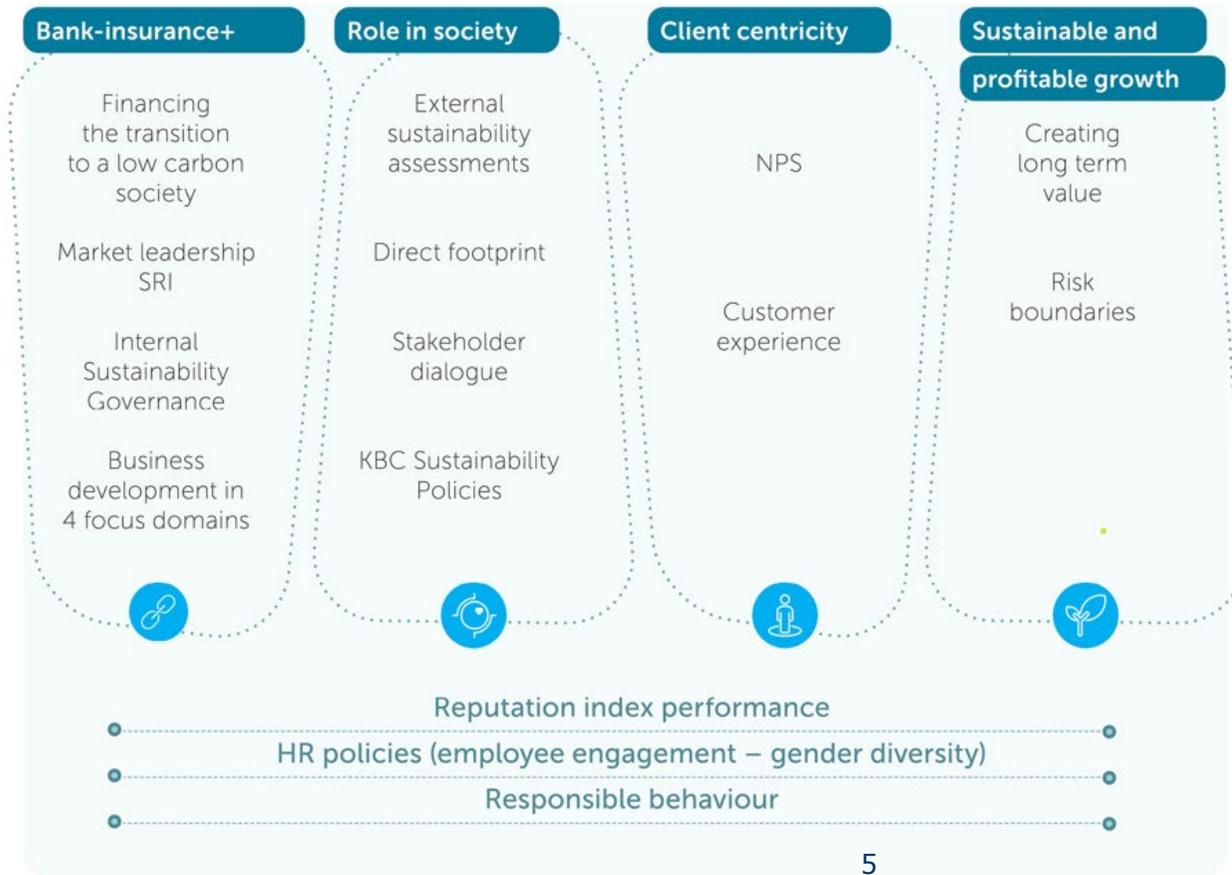


<sup>1</sup> Limited to environment, social and governance (ESG) topics discussed as part of our specific sustainability governance. This does not include ESG related topics outside this governance such as topics related to corporate governance and remuneration, diversity, anti-money laundering and cyber security.



# KBC Sustainability Dashboard

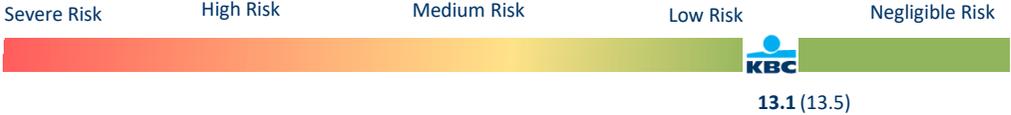
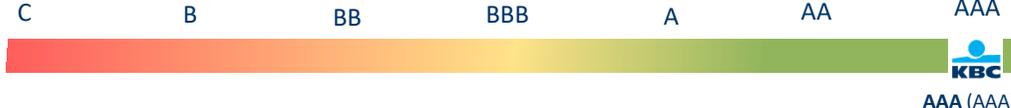
Following-up and evaluating the implementation of our sustainability and climate strategy





# Recognised as an ESG leader by independent rating providers

*KBC aims to be the reference*

Agencies	ESG rating of 29 <sup>st</sup> of April 2022 (previous score)	Position versus industry average
		Financial services average B
		3 <sup>rd</sup> percentile of 413 diversified banks assessed 9 <sup>th</sup> of 413 diversified banks
 <small>A Division of S&amp;P Global</small>		Top 12% (88 <sup>th</sup> percentile of 242 banks assessed)
		3 <sup>rd</sup> percentile of 189 banks assessed
		1 <sup>st</sup> decile rank of 299 Commercial Banks & Capital Markets assessed
		Top 4% (96 <sup>th</sup> percentile of banks assessed)





# Our sustainability roadmap

## Strong ESG performance in 2021

2021



### ESG

#### Environment



All remaining direct coal exposure has been phased out in line with our commitment



We calculated the GHG emissions for the entire KBC Group's loan and lease portfolio for the first time based on the PCAF methodology



We calculated the climate-related impact of our own investments and asset management portfolio through Trucost data and methodology



Net climate-neutral regarding our direct environmental footprint



### ESG

#### Social



31.7 billion euros in socially responsible investment (RI) funds



10.2 million euros of outstanding loans to microfinance institutions and investments in microfinance funds, reaching 1.7 million rural entrepreneurs and farmers in the South



Promoting female entrepreneurship among our start-up community



Promoting diversity and an inclusive culture and inclusion in the Bloomberg Gender-Equality Index



### ESG

#### Governance



Top level responsibility for sustainability and climate change – anchored in our sustainability governance and remuneration



Our people as one of the main drivers in our sustainable transition



Our climate business game was further enrolled to our senior management as part of our leadership development programme



Completion of responsible behaviour awareness training by the vast majority of staff in all core countries

# Our sustainability-related commitments

*KBC supports various international agreements and standards in delivering upon our Sustainability commitments*



## UN Environment Programme Initiative

A partnership between the UNEP and the global financial sector to mobilise the private sector finance for sustainable development.



## Principles for Sustainable Insurance

A global framework for the insurance industry to address environmental, social and governance risks and opportunities. *Self-assessment regarding the implementation included in the Sustainability Report.*



## Tobacco Free Pledge

An initiative calling on financial institutions worldwide to divest from the tobacco industry. *KBC signed the pledge in 2019.*



## Principles for Responsible Banking

A unique framework for ensuring that signatory banks' strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement. *Self-assessment regarding the implementation included in the Sustainability Report.*



## UN Global Compact

A call to companies to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption, and take actions that advance societal goals. *Our Communication on Progress is available on [www.kbc.com](http://www.kbc.com)*



## Task Force on Climate-related Financial Disclosures

A set of recommendations for more effective climate-related disclosures to support more informed investment, credit and insurance underwriting decisions. *We report on our climate actions in line with the recommendations in the Sustainability Report.*



## Principles for Responsible Investment

An international network of investor signatories the incorporation of ESG factors in their investment and ownership decisions. *We report on actions taken in relation to the PRIs in the Transparency Report available on the website of UNEP PRI.*



## Equator Principles

A financial industry benchmark for determining, assessing and managing environmental and social risk in projects. *Reporting is included in the Sustainability Report.*



## Partnership for Carbon Accounting Financials

A standard enabling financial institutions to assess and disclose GHG emissions of loans and investments. *KBC joined in 2019 and we report on our calculated emissions in the Sustainability Report.*

# Our people



- Working the Next Level
- Employee growth and development
- Listening to our employees
- Safe and healthy working environment
- Social dialogue
- Diversity and inclusion



# Our people

*Building on a solid PEARL+ corporate culture*

Our people represent our 'human capital' and are **one of the main drivers to creating sustainable value** as a bank-insurer. Our **values** challenge us day in, day out to behave critically and responsibly





# Our people

*Offering a safe, secure and healthy working environment and stimulating creativity and innovation*

- **Working the Next Level:** Being prepared for a changed work organisation.
- **Employee growth and development:** Offering development opportunities and continuous progression.
- **Employee engagement:** Listening to our employees and taking action.
- **Safe and healthy working environment:** Promoting a healthy work-life balance
- **Social dialogue:** Maintaining a constructive social dialogue in our core countries and offering a fair remuneration to our employees. In 2021, KBC offered an exceptional Covid-related bonus to all Group employees
- **Diversity and inclusion:** fostering an inclusive business culture
  - First Policy on Diversity and Inclusion (principles: respect as a basis; equal opportunities for all employees; being aware of and avoid conscious and unconscious bias)
  - Clear goals to support gender diversity at the top
  - Inclusion in the Bloomberg Gender-Equality Index

Table 3.1: Share of women in senior management and in top talent pool

Indicator	2021	2020	2019
% women in senior management	24%	22%	21%
% women in top talent pool	38%	32%	33%



# Our responsibility



## Responsible business

- Responsible behaviour
- Business ethics
- Human rights
- Information security and cyber risk
- Privacy and data protection

## Sustainability policies

- Updated and new sustainability policies
- Application of KBC's sustainability framework
- Due diligence, remedial action and mitigation



# Our responsibility

*Responsible behaviour as the foundation to gain and retain the trust of our stakeholders*

- **Responsible behaviour** is crucial to an effective and credible sustainability strategy
  - Trust is fundamental to 'our social license to operate'
  - Sound risk awareness
  - Dilemma training (decision wheel) and groupwide awareness training
- **Business ethics:** Compliance with relevant rules and regulations and corporate policies
  - Anti-Money Laundering
  - Anti-corruption and bribery
  - Whistleblowing and speaking up
  - Responsible artificial intelligence
  - ...
- **Information security and cyber risk**
- **Privacy and data protection**

## Policies

[Code of Conduct for KBC Group Employees](#)

[KBC Group Anti-Money Laundering Policy](#)

[KBC Group Ethics and Fraud Policy](#)

[KBC Group Anti-Corruption and Bribery Policy](#)

[US Patriot Act Certification](#)

[KBC Group Tax Strategy](#)

[Policy for the Protection of Whistleblowers at KBC Group](#)

[KBC Group Corporate Public Affairs Policy](#)

[KBC Dealing Code](#)



# Our responsibility

*A solid sustainability framework with strict sustainability policies as the backbone of our business activities*

- **Strict sustainability policies** applied to our business activities with respect to human rights, environment, climate and biodiversity, business ethics and sensitive/ controversial societal issues.
- The KBC sustainability policies are **regularly reviewed**, at least every 2 years or more frequently if necessary, to make sure that they continue to meet the concerns and expectations of society.
- KBC is assisted in this by **two External Sustainability Boards**, panels of outside, independent experts with expertise in the various sustainability domains (one for asset management and one for all other activities).
- In 2021, we **further tightened the KBC Group Energy Policy substantially** while significant steps have also been taken in previous year.



# KBC Group Energy Policy

*An overview of the subsequent restrictions we have already implemented since 2016*

Figure 4.1: KBC Group energy policy updates since 2016

	2016	2018	2020	April 2021	Jul 2021	Nov 2021
 Thermal coal	<p>No more new direct financing of coal and coal related activities</p> <p>Phase out-period until 2050 in the Czech Republic seen the specific local situation</p>	<p>Stricter rules in Czech Republic; exposure to be scaled back to zero by 2023 for coal-based electricity generation and by 2035 for central heating plants</p>	<p>No more financing and insurance of new customers if they obtain any energy production capacity from coal</p> <p>Stricter rules in Czech Republic, no more financing and insurance of coal-fired heat distribution networks</p> <p>Stricter rules in Czech Republic, all exposure to be scaled back to zero by 2030</p>	<p>All remaining coal-related financing to be fully phased out by the end of 2021 – achieved by mid 2021</p> <p>Requirement for mandatory transition plan for existing customers with thermal coal activities</p>	<p>Direct exposure of thermal coal reaches zero</p>	
 Oil and gas	<p>No more financing of unconventional oil and gas exploration, such as Arctic and Antarctic on- and off-shore oil and gas, deepwater drilling, tar sands and shale oil and gas</p>	<p>No more financing for companies specialized in extraction</p>				<p>No financing of exploration of new oil and gas fields</p> <p>General financing of vertically integrated oil and gas limited to 2030</p>
 Nuclear				<p>Only if part of national energy transition strategy</p>		

# Sustainable finance



Our approach to sustainable finance

Socially responsible investments on behalf of our clients

Sustainability in own investments

Our commitment concerning our social impact

Our commitment to the environment and climate action



# Sustainable finance

*Our important role as a financial institution in contributing to the economic, social and environmental objectives of the UN Sustainable Development Goals*

- We aim to meet the expectations of society's stakeholders in respect of the main **environmental, social and governance (ESG) topics** by adapting our portfolios and policies accordingly.
  - We use our core operations as tools to stimulate the most sustainable activities of our clients, supporting our clients in their sustainability transition and by offering them the best business solutions for this transition.
  - We are gradually restricting the most harmful activities. At the same time, we also need to limit the risks in our portfolios that may arise from an insufficiently strong and late implementation of various sustainability actions.
  - We strive to provide business solutions that have a positive impact on society in our selected focus areas:

## Sustainable business solutions

These business solutions are discussed in detail in the 'Our sustainable business solutions' section of this report.

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



# Sustainable finance

*Taking into account ESG considerations in all our core activities*

**Sustainable finance products** channel funds to finance customer transactions, supporting the transition of our clients in many sectors and domains: environmentally and socially sustainable solutions. As mapping is ongoing, the table does not provide a full overview.

- **ESG** in the investments on behalf of our clients
- **ESG** in KBC Group's own investments
- Our commitment concerning **social** impact
- Our commitment to the **environment**

Table 5.1: Sustainable finance (KBC Group, millions of euros, end-of-year data)

	2021	2020	2019
Financing contributing to environmental objectives (granted amount)			
Renewable energy and biofuel sector	2 115	1 840	1 768
Mortgages for energy-efficient housing	9 517 <sup>1</sup>	8 817 <sup>1</sup>	-
Financing for low carbon vehicles (outstanding amount)	120 <sup>2</sup>	-	-
<b>Total</b>	<b>11 752</b>	<b>10 657</b>	<b>1 768</b>
Financing contributing to social objectives (granted amount)			
Healthcare and senior living sector	6 059	6 085	5 783
Education sector	1 093	1 031	975
BRS Microfinance Coop: loans to microfinance institutions and investments in microfinance funds (cooperative share capital)	10 (22)	12 (22)	14 (22)
<b>Total</b>	<b>7 162</b>	<b>7 128</b>	<b>6 772</b>
Socially responsible investment (SRI) on behalf of our clients			
SRI funds under distribution <sup>3</sup>	31 700	16 780	12 016

<sup>1</sup> Includes data as per 30 September 2020 for Belgium, the Czech Republic, Ireland and Slovakia and data as per 30 September 2021 for all KBC's core countries (newly built dwellings with energy performance labels A and B, based on actual EPC labels or on first approximation when no labels are available, and considered as energy-efficient housing).

<sup>2</sup> Includes data for financial leasing, loans and operational leasing from 1 October 2020 up until 30 September 2021 for Belgium, the Czech Republic, Bulgaria, Hungary and Slovakia (vehicles with emissions < 50 g CO<sub>2</sub>/km and in alignment with substantial contribution criteria of the EU taxonomy, including bicycles, motorbikes, passenger cars and light commercial vehicles).

<sup>3</sup> KBC Asset Management current SRI framework is a KBC in-house but well proven and externally challenged framework. KBC Asset Management is further aligning this framework to new EU regulations such as SFDR and MiFID and currently works under the assumption that all SRI funds are either Article 8 or Article 9 funds under the SFDR.



# Responsible Investing (RI) on behalf of our clients

*Our focus on RI funds as a key element of our sustainability strategy*

- RI as **first offer** and preferred investment solution. Thereto strongly focused on awareness and understanding of RI both amongst our staff and clients.
- Clear targets on volume of RI and % of annual fund production

Table 5.2: SRI funds<sup>1, 2</sup>

Indicator	Target	2021	2020	2019
Volume of SRI funds	30 billion euros by 2025	31.7 billion euros	16.8 billion euros	12 billion euros
SRI funds in % of total annual fund production (gross sales)	More than 50% from 2021 onwards	55%	40%	30%

<sup>1</sup> End-of-year data

<sup>2</sup> KBC Asset Management current SRI framework is a KBC in-house but well proven and externally challenged framework. KBC Asset Management is further aligning this framework to new EU regulations such as SFDR and MIFID and currently works under the assumption that all SRI funds are either Article 8 or Article 9 funds under the SFDR.

End 2021, we already reached our target of 30 billion euros, amongst others, thanks to the **conversion of the two remaining conventional pension saving funds in Belgium to RI funds.**

Since the first quarter of 2022, we are offering RI funds in **all our core countries.**

- Strict exclusion criteria** on top of general exclusion policies for conventional funds and **positive impact** by investing in companies and countries that score well on sustainability
- RI Advisory Board** = external panel of **independent** experts
- Clear **proxy voting policy and engagement strategy**





# Sustainability in our own investments

*Gradually including ESG considerations in KBC Group's own investments*

- Sustainable investment principles of Group Treasury - Update of KBC Group Investment Policy at the end of 2020:
  - New investments made by KBC entities for their own account are required to **comply with most of the exclusion criteria defined by KBC Asset Management for their responsible investing (RI) funds**, alongside exclusion policies that were already in place for several years, such as KBC's blacklists of specific companies, human rights offenders and controversial regimes.
  - KBC's own investments thus also benefit from the **solid expertise and governance structure already applicable to our RI funds**, including but not limited to the permanent external challenge of our policies and asset selection by the RI Advisory Board
  
- Sustainable investment principles of Pensioenfond KBC:
  - An **explicit ESG policy** has already been embedded in the Statement of Investment Principles **since 2017**.
  - Since 2020, an **even greater focus on Best-in-Class investment funds**, along with the long-term goal of achieving a climate-neutral investment portfolio.
  - In 2021, the EU Sustainable Finance Disclosure Regulation (SFDR) came into force which led to **a new policy on sustainability risks** and a paragraph on sustainability risks in the pre-contractual information provided to new hires.
    - 44% of the Defined Benefit Portfolio has an Article 8 or 9 qualification
    - 88% of the Defined Contribution Portfolio has an Article 8 or 9 qualification



# KBC Social Bond Framework

*A framework aligned with the best market practices*

- Rationale for the issuance of social bonds
  - KBC is dedicated to increase its positive social impact by financing and insuring the healthcare & education sectors. Adding social bonds to KBC's funding mix, can create a further dimension of transparency around financing that increases KBC's positive social impact.
  - KBC wishes to further support the development of Green, Social & Sustainability bond markets in Belgium and Europe.
- Alignment with the 4 core components of ICMA Social Bond Principles 2021

- Social categories:

- Access to education
- Affordable basic infrastructure for sport and culture
- Hospitals
- Care facilities
- Social housing
- SME Loans

SDG contribution:



"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."



**SUSTAINALYTICS**

a Morningstar company





# Our commitment concerning our social impact

*Increasing our social impact through our core activities*

- **Social impact financing:** Financing and insuring projects that contribute to and provide access to social goods and services such as education, basic infrastructure, essential services, health and employment.

Financing to the healthcare and senior living sector amounted to 6 billion euros at year-end 2021.

KBC is supporting the social bond market and is also investigating the introduction of a KBC Social Bond Framework.

At year-end 2021, the financing to the education sector for KBC Group as a whole amounted to 1.1 billion euros.

KBC Insurance in Belgium participates in the construction all risk insurance of the Oosterweel link, the 'Park and Ride' sites and the associated quality of life projects. These projects will create a safer, greener and healthier Antwerp region.

## Social impact finance

	Note	Unit	2021	2020	2019
Loan portfolio in healthcare and senior living sector (granted amount)	1	bn EUR	6.06	6.09	5.78
Loan portfolio in education sector (granted amount)	1	bn EUR	1.09	1.03	0.98

<sup>1</sup> FY data



# Our commitment concerning our social impact

*Increasing our social impact through our core activities*

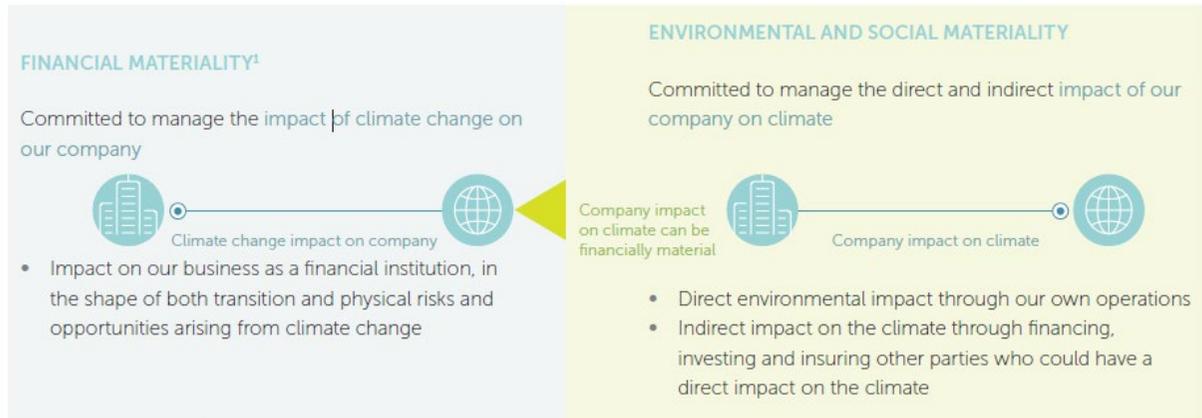
- **Financial inclusion and impact investing:** Through our unique partnership with BRS we facilitate sustainable local development and contribute to financial inclusion:
  - **Microfinance and microinsurance**
    - Focus on collaboration with cooperative microfinance institutions (MFI) with a distinct **social vision** (monitored through an internal dashboard including a number of social KPI's)
    - **BRS Microfinance Coop** invests capital raised through the issue of cooperative shares in microfinance institutions in Africa, Latin America or Asia, which in turn provide microcredits to rural entrepreneurs and farmers, or to the cooperatives that unite them.
    - 10.2 million euros outstanding loans to 9 microfinance institutions, which together reach 1.7 million entrepreneurs.
    - 34% of the outstanding share capital (22.3 million euros) contributed by KBC.
  - Focus on **advice, coaching and training** based on its unique practical experience and knowledge of cooperative banking and insurance
    - KBC4BRS: involvement of active KBC employees
    - BRS institute: involvement of experienced bankers and insurers after their active careers at KBC



# Our commitment to the environment and climate action

*Actively working on our environmental impact*

- Strong focus on **climate change mitigation and adaptation** through the **KBC Sustainable Finance Programme**. Other environmental objectives are also considered and included in our sustainability policies and risk approach, however, not yet on a programme basis.
- Our **climate action is guided** by:
  - **Our CCCA commitment** signed in September 2019 already, in which we committed to align our portfolios with the Paris Agreement goals. To this end, we are committed to translate this in 2022 in **tangible, action-oriented approaches and targets** for the relevant priority sectors.
  - We closely examine and follow-up the initiatives and the approach of the different Net Zero initiatives, however, we prefer to first diligently execute the commitments already undertaken.
  - **The 'double materiality' approach**
  - **Active collaboration with all stakeholders involved** in order to make a significant impact in addressing climate change: our clients, the banking associations in our core countries, regulatory authorities.
  - **Step-by-step policy decisions** and related actions **to put KBC's commitments into practice.**





# Our environmental footprint

Measuring and reporting both our direct and indirect footprint scope

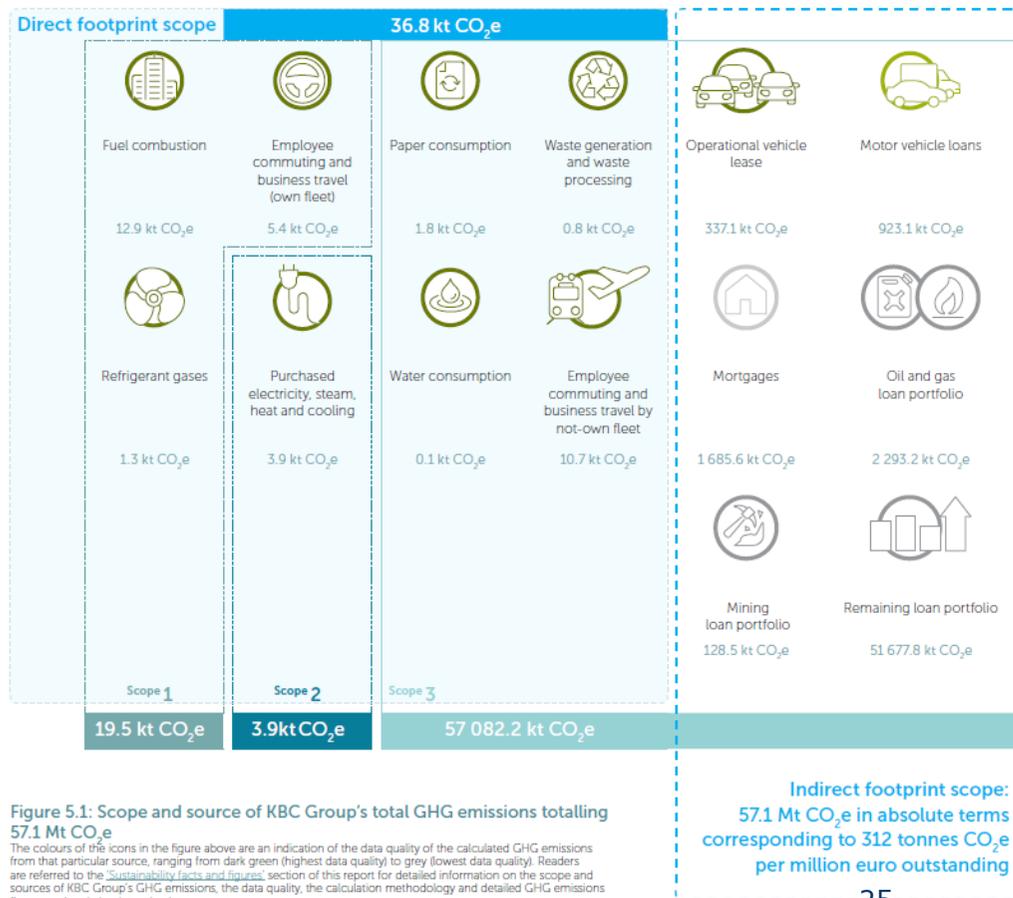


Figure 5.1: Scope and source of KBC Group's total GHG emissions totalling 57.1 Mt CO<sub>2</sub>e

The colours of the icons in the figure above are an indication of the data quality of the calculated GHG emissions from that particular source, ranging from dark green (highest data quality) to grey (lowest data quality). Readers are referred to the 'Sustainability Facts and figures' section of this report for detailed information on the scope and sources of KBC Group's GHG emissions, the data quality, the calculation methodology and detailed GHG emissions figures and emission intensity data per sector.

- Measure, reduce and set clear targets on our **direct footprint scope** already since 2015.
  - We already substantially reduced our direct footprint by -71% in 2021.
  - In line with our commitment, we reached net-climate neutrality with respect to our direct footprint scope in 2021.
- Measure our **indirect footprint scope** as a first step to identify strategies to reduce this impact and set related targets.
  - In 2021, for the first time, we have calculated the Scope 3 financed emissions of KBC Group's total loan and lease portfolio.



# Our indirect environmental impact

*Disclosing our efforts on the management of climate-related risks and opportunities structured across the four pillars of the TCFD recommendations*

## ■ Governance:

- Climate-related governance is an **integral part of our overall sustainability governance** with **top level responsibility** for sustainability and climate strategy.
- **Dedicated Sustainable Finance Programme** set up in 2019 to focus on integrating KBC's climate approach across the group.
- **Specific governance bodies** to support the KBC Sustainable Finance Programme and **involvement of all relevant departments** where necessary.
- Set-up of a specific **Data and Metrics Project** in 2021 as part of the Sustainable Finance Programme, aimed at timely delivery of all legal, regulatory and voluntary reports and at coordinating all actions to this end. The project is overseen by the **Data and Metrics Steering Committee**.





# Our indirect environmental impact

*Disclosing our efforts on the management of climate-related risks and opportunities structured across the four pillars of the TCFD recommendations*

## ▪ **Strategy:**

- Updated strategies on the **most carbon-intensive industrial sectors and product lines** (White Papers):
  - Focusing on eight industry sectors and three specific product lines identified as the most carbon-intensive ones.
  - Together representing about **2/3 of the Scope 3 financed GHG emissions of KBC Group's total loan and lease portfolio** and approximately 2/3 of total outstanding loan portfolio.
  - Aimed at integrating climate-related risks, opportunities and targets into these business lines.
- **Customer engagement:** collaborating with and supporting our clients in their sustainable transition.
- Continued focus on **opportunities:** products, solutions and transactions that contribute to a greener environment
- Introduction of a preliminary **Internal Carbon Pricing schedule**



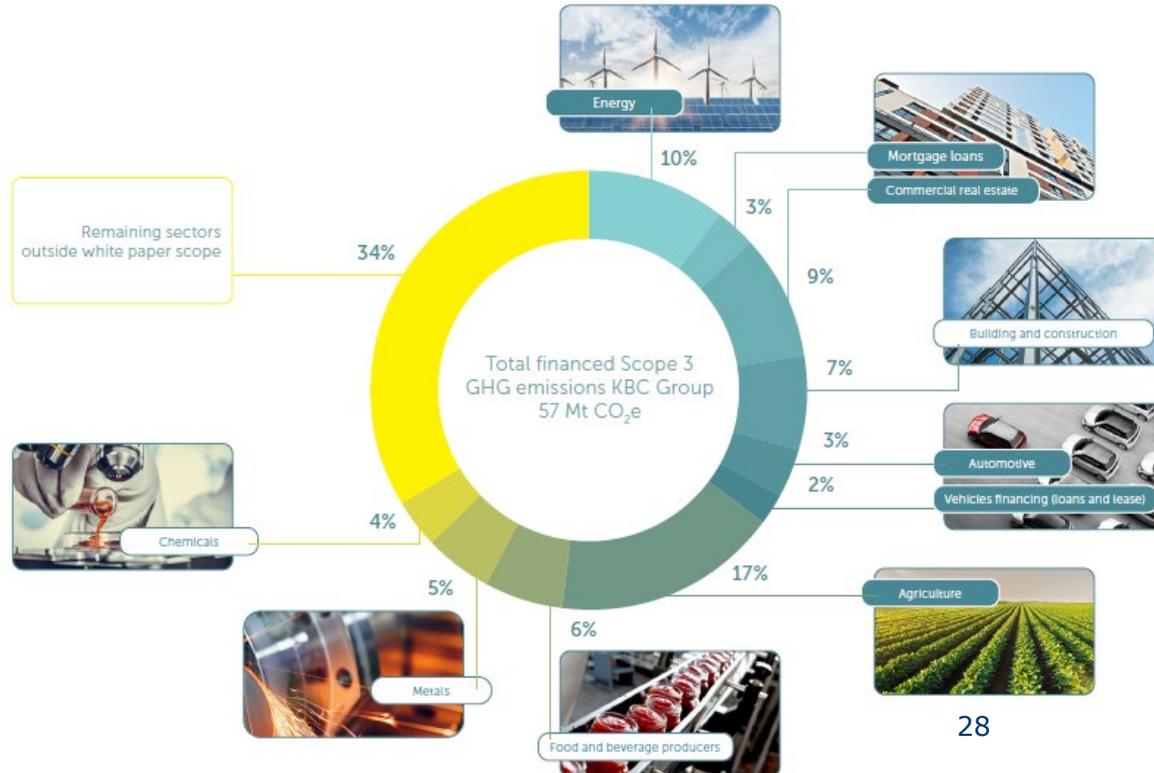


# White Paper approach

## Updated strategies on the most-carbon intensive industrial sectors and products lines

Graph 10.1.1: Most material climate-sensitive sectors and product lines and associated Scope 3 GHG emissions in % of total financed GHG emissions of KBC Group<sup>1</sup>

<sup>1</sup> For detailed emission figures per sector and more information on the calculation methodology, please refer to the 'Sustainability facts and figures' section of this report.



- White Paper analysis is focused on eight industry sectors and three specific product lines identified as the **most carbon-intensive ones**, and includes an analysis of:

- The challenges and technological developments of each of the sectors and business lines;
- The relevant European and local regulations and action plans;
- The impact on KBC's portfolio in terms of climate-related risks and opportunities;
- The possible risk-mitigating measures, commercial policy adjustments and how we can steer each of the portfolios to be in line with the Paris Agreement (including possible metrics).
- The various risk assessments and results of methodologies such as PACTA (Paris Alignment Capital Transition Assessment), PCAF and UNEP FI.

- Conducted with a focus on our credit business, advisory services and insurance activities.
- Regular updates** of the White Paper analyses, already by **mid-2022 for the priority sectors**.
- The main findings for each of these sectors and business lines are detailed in the appendix to the Sustainability Report.



# Our indirect environmental impact

*Disclosing our efforts on the management of climate-related risks and opportunities structured across the four pillars of the TCFD recommendations*

## ▪ Risk Management:

- **ESG risks**, including climate-related and environmental risks, are **identified and defined in our risk taxonomy**.
- Climate-related risk confirmed as a **top risk** for KBC.
- **Solid risk management:**
  - Embedded in existing risk management processes.
  - Top level representation of Group risk and Group Credit Risk in the Sustainable Finance governance bodies
- Continuous risk identification process, supplemented with a strategic 'risk scan' exercise
- Clear risk appetite objectives to define and realise our strategic sustainability goals
- Incorporation of climate-related risks into stress testing and sensitivity analysis





# Our indirect environmental impact

*Disclosing our efforts on the management of climate-related risks and opportunities structured across the four pillars of the TCFD recommendations*

- **Metrics and targets:**

- **Gathering climate-relevant data on our portfolios as a crucial first step** to monitor and steer our portfolios and to set targets.
- **Variety of tools and methodologies** to track the climate-related impact of our portfolios:
  - Loan portfolios: PACTA (Paris Alignment Capital Transition Assessment), UNEP FI (United Nations Environmental Programme Finance Initiative) inspired physical and transition risk assessment and PCAF (Partnership for Carbon Accounting Financials)
  - Investment portfolios: Trucost data and methodology
- **Metrics and targets for the indirect impact of our loan portfolio:**
  - Focus on White Papers sectors and product lines
  - Set-up of a dedicated **Data and Metrics project** to deal with one of the biggest challenges of the Sustainable Finance Programme: availability of sufficiently granular climate-related data on our portfolios.





# Loan portfolio assessment methodologies

*Methodologies informing KBC on the climate-related impact of the most carbon-intensive components of our loan portfolios*

- **PCAF (Platform Carbon Accounting Financials)** offers a methodology for calculating Scope 3-financed GHG emissions for financial institutions.
  - In 2019, KBC piloted the methodology for a limited part of its portfolio. In 2020 the scope was expanded to the car lease, car loans and mortgages portfolios in all core countries. In 2021, the PCAF pilot scope was further enlarged to include road freight transport in the vehicles lease and loans portfolios and, as we are observing the timeline as set out by PCAF, we included the mining and oil and gas sectors in the PCAF pilot scope as well.
  - Moreover, in 2021 we also applied the PCAF methodology to the remainder of our loan and lease portfolio. As such, for the first time, we have calculated the **Scope 3 financed emissions for the entire KBC Group's total loan and lease portfolio.**

Table 5.6: Outcome of PCAF methodology for the KBC Group loan portfolio: financed Scope 3 GHG emissions

Sector	Total financed emissions (tonnes CO <sub>2</sub> e)	Weighted data quality level
Portfolios in scope of PCAF pilot		
Operational leasing	337 166	1
Motor vehicle loans	923 110	4
Mortgages	1 685 594	5
Oil and gas	2 293 167	5
Mining	128 542	5
Other sectors outside PCAF pilot scope	51 677 807	5
<b>TOTAL</b>	<b>57 045 386</b>	<b>31 5</b>

- Based on our financial exposure to the GHG emissions of our clients.
- Scope of the analysis and level of emission source data differs per portfolio.
- For portfolios outside the PCAF pilot scope, sectors and their exposures have been mapped to the PCAF emission factor database at their highest and most aggregated level. This entails the conservative assumption that the selected emission factor is representative for all sub-sectoral activities underlying the sector for which financed emissions are calculated.
- While the reported figures give a first and high-level indication about the emission weightiness of the different sectors and products in our loan portfolio, they should not be confused with actual real-world emissions of counterparty borrowers but may implicate an over- or understated condition.

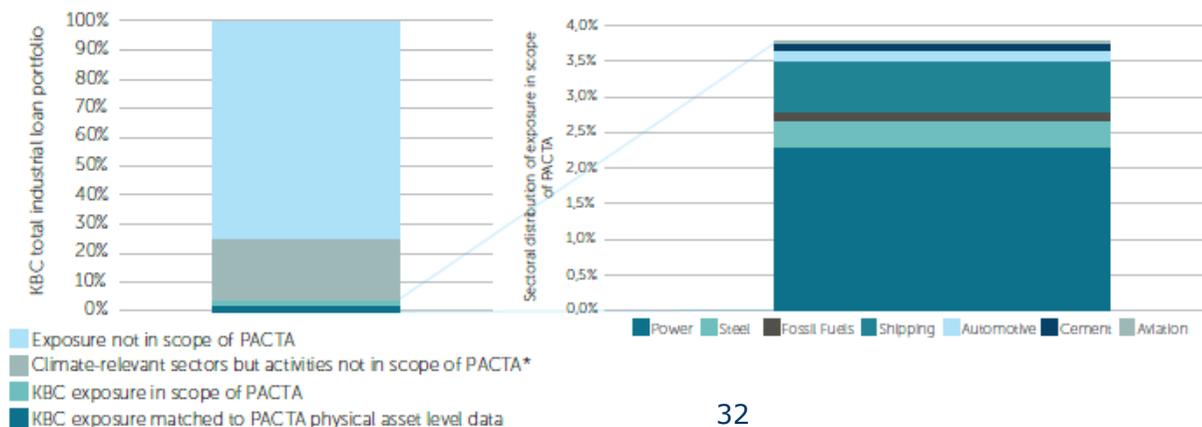


# Loan portfolio assessment methodologies

*Methodologies informing KBC on the climate-related impact of the most carbon-intensive components of our loan portfolios*

- **PACTA** (Paris Agreement Capital Transition Assessment) is a forward-looking scenario-based methodology developed by 2DII, which measures climate-related transition risks in loan portfolios in key climate-relevant sectors and activities
  - Third publication of our PACTA results based upon the corporate industrial loan portfolio of KBC (sectors in PACTA scope: steel, automotive, shipping, aviation, power, fossil fuels (coal, oil, gas) and cement).
  - Confirmation that overall share of loans in PACTA scope is relatively small, at 3.8% of the total industrial loan book as per end June 2021
  - Hence, **a limited exposure to companies that contribute the most to global CO<sub>2</sub> emissions.**

Graph 10.3.1: Granted exposure across the key PACTA sectors





# Loan portfolio assessment methodologies

*Methodologies informing KBC on the climate-related impact of the most carbon-intensive components of our loan portfolios*

## ■ UNEP FI transition risk assessment:

- Results of the analytical tools and indicators used to assess credit risks in our corporate loan portfolio that are associated with the transition to a low-carbon economy.
- In 2021, we expanded the scope of the analysis to all White Paper sectors based on the internally adapted **transition risk** methodology.
- The climate-related transition risk sensitivities serve as input for our White Paper approach.

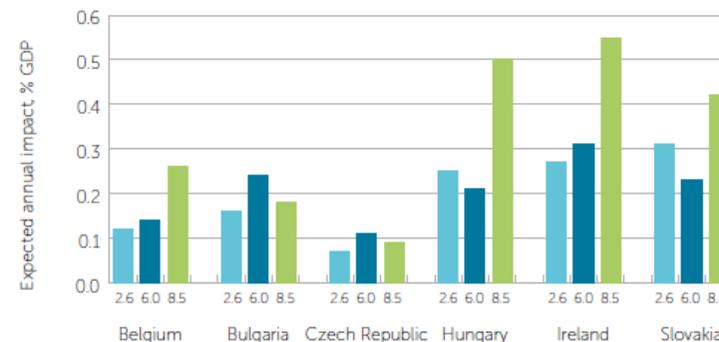
## ■ Climada:

- Assessment of the physical vulnerability of KBC's core countries' economies, focused on the impact of future river floods based on Climada, an open-source natural catastrophe model
- Expected annual impact of river floods for each KBC home country and RCP scenarios (climate warming scenarios corresponding to Representative Concentration Pathways)

Table 10.1.1: Overview of financial sensitivities established in the UNEP FI Inspired Transition Risk Assessment for the energy loan portfolio

SEGMENT	Direct emissions cost	Indirect emissions cost	Low-carbon capital expenditure	Revenue
Renewables	LOW	MODERATELY LOW	MODERATELY LOW	POSITIVE IMPACT
Coal and oil	HIGH	HIGH	HIGH	MODERATELY HIGH
Gas	MODERATELY HIGH	MODERATELY HIGH	MODERATELY HIGH	MODERATE
Nuclear	LOW	LOW	MODERATE	MODERATE
Transmission and Distribution	LOW	LOW	MODERATE	MODERATE

Graph 10.6.1: Expected annual impact expressed as a percentage of the country's nominal GDP





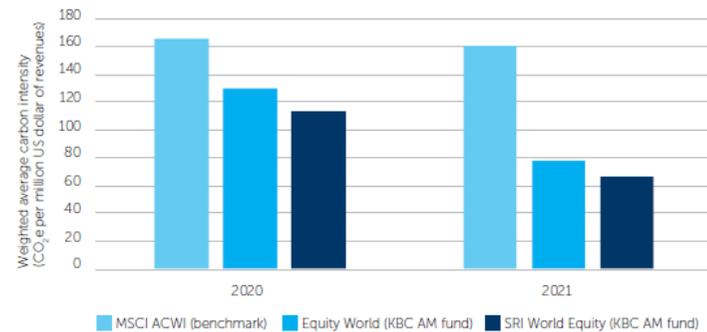
# Investment portfolio assessment methodologies

*Methodologies and data used to measure the climate-related impact of our investment portfolios*

## ■ Trucost:

- **Second assessment** of the climate impact of **KBC Asset Management's funds** and **first assessment of the climate-related impact of our own investments** (Group Treasury and Pensioenfonds KBC) using Trucost data methodology.
- Scope was expanded to include KBC own investments by Group Treasury and Pensioenfonds KBC.
- Calculation of **average carbon intensity of the different portfolios and comparison against benchmarks**.
  - E.g. Comparison of RI funds offered by KBC Asset Management against benchmarks on an individual fund level:

Graph 10.4.1: Weighted average carbon intensity (CO<sub>2</sub>e per million US dollar of revenues) of a diversified equity fund: comparison of an SRI fund and a similar conventional fund



Graph 10.4.2: Weighted average carbon intensity (CO<sub>2</sub>e per million US dollar of revenues) of a diversified euro corporate bond: comparison of an SRI fund and a similar conventional fund



*Findings should be approached with due caution and nuance as both the methodology, data sets as well as our experience with these instruments continue to be under development.*



Questions?